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The International Investment Position of the United States: Developments in 1969

The net international investment position of the United States improved by $1.5 billion in 1969 as total U.S. assets rose $11.1 billion and total liabilities rose only $9.6 billion. The rise in the value of U.S. direct investments abroad, including reinvested earnings, was $5.8 billion, slightly more than the rise in 1968. However, the net flow of corporate funds was slightly more favorable to the balance of payments than in 1968 because earnings on direct investments rose sharply. The ratio of U.S. reserve assets to liabilities to foreign official agencies moved favorably, reflecting the 1969 surplus on the official reserve transactions balance; at the same time, the ratio of U.S. reserve assets to liquid liabilities continued to fall, reflecting the large liquidity deficit.

TOTAL international assets of the United States—including official reserve assets—rose $11,064 million in 1969 and U.S. liabilities to foreigners rose $9,542 million. As a result, the net international investment position improved by $1,522 million, which was substantially greater than the small improvement of only $152 million in 1968. At yearend 1969, total assets exceeded total liabilities by $67,046 million.

This article first considers the factors accounting for the recent changes in the U.S. net international investment position (table 1). The composition of the shifts in the total value of assets and liabilities from yearend to yearend is then discussed, noting the contributions of balance of payments flows, reinvested earnings, and valuation changes, as well as changes in coverage and statistical discrepancies (tables 2 and 3). In addition, the changing structure of the relation between the liquidity of U.S. assets and the liquidity of U.S. liabilities is analyzed (table 4 and chart 9).

A major part of the article is devoted to discussion of U.S. direct investment abroad and the flows associated with such investments. A summary is given in table 5 and detailed figures for 1969 are published here for the first time in tables 5 through 11. Foreign direct investment in the United States (tables 12 and 13) and portfolio investments (tables 14 and 15) are also discussed.

Changes in the Net International Position

Changes in the net international investment position of the United States reflect three major factors (table 1). The first is net recorded balance of payments capital flows, which must be equal to the current account (the balance on goods, services, and unilateral transfers) adjusted for errors and omissions.[1] In effect, a surplus on the current account adjusted for errors and omissions allows an improvement in our net investment position. The second is reinvested earnings of U.S. affiliates abroad minus reinvested earnings of foreign enterprises in the United States. Earnings of U.S. affiliates abroad not sent back to the United States as income (and thus not included in the current account) improve our investment position. The third factor is the net change in valuation of outstanding U.S. investments abroad and foreign investment in the United States (including adjustments in the various series for changes in coverage and statistical discrepancies); these are also not included in the balance of payments accounts. Essentially, we improve our net investment position by transferring abroad real goods and services or by reinvesting foreign earnings abroad, but the position is also affected by changes in valuation of outstanding assets and liabilities.

From the mid-1950's through 1966, we had a rather consistent rise in our net investment position, which largely reflected a strong trade balance and growing income on investments (and thus a surplus on the current account), as well as a moderate growth in reinvested earnings; these factors were only partly offset by adverse valuation adjustments. However, in 1967 (when the valuation adjustment was particularly adverse), and in 1968 (when the trade balance dropped sharply), the net investment position rose only nominally.

Our net position showed a $1.5 billion improvement in 1969. Net reinvested earnings amounted to $2.1 billion and, more importantly, there was an extremely favorable impact of over $3.0 billion due to valuation and price changes affecting outstanding portfolio holdings. (In 1968, valuation adjustments had been unfavorable.) As prices in the U.S. stock market declined in 1969, the value of outstanding U.S. stocks held by foreigners declined almost $3.0 billion, thus reducing U.S. liabilities to foreigners. In addition, rising long-term

NOTE.—Significant contributions were also made by Julius Freidlin, Russell Scholl and Zalie Warner.

1. If the errors and omissions in the balance of payments accounts could be identified, a part would presumably go into recorded capital flows and a part into recorded goods, services, and unilateral transfer accounts. The two accounts would then be equal.

interest rates in the United States reduced bond prices and the value of outstanding foreign holdings of U.S. bonds fell by almost another $1.0 billion. These shifts were only partly offset by a $1.0 billion decline in the value of outstanding foreign bonds held by U.S. residents which resulted from rising interest rates abroad. (Valuation adjustments to outstanding U.S. holdings of foreign stocks were small.)

On the other hand, the net investment position was adversely affected by the $3.7 billion net inflow of capital recorded in the balance of payments. This, in turn, reflected a $2.8 billion negative errors and omissions (a sharp deterioration from 1968) and a $0.9 billion deficit on current account ($0.5 billion more than in 1968). The deterioration in the current account largely reflected a sharp increase in payments to foreigners on their dollar holdings due mainly to the sharp rise in U.S. interest rates; there was little change in the trade balance.

There are reasons to believe that our investment position improved by more than the recorded amount in 1969. Available figures on Eurodollar market holdings suggest that a substantial part of the increased outflow from the United States on errors and omissions reflected flows of U.S. funds to the Eurodollar market. Such flows would increase U.S. assets abroad, but are not reflected in the recorded capital flows nor in the investment position. If rough allowance is made for such unrecorded flows to the Eurodollar market, it appears that the net investment position might have improved by perhaps as much as $3.0 billion, rather than $1.5 billion.

While the net change in our investment position can be considered to be accounted for by the factors just discussed (the current account adjusted for errors and omissions, reinvested earning and valuation adjustments), capital flows, of course, may have a major impact on trade, services, and earnings. To the extent this occurs, the change in the net investment position is not determined independently of capital flows. On the other hand, an outflow of capital from the United States does not necessarily result in a net change in the U.S. international investment position unless one of the factors mentioned also is influenced. These questions were discussed more fully in the Investment Position article in the October 1969 SURVEY.

Changes in U.S. Assets and Liabilities

The composition of changes in assets and liabilities was quite different in 1969 than in 1968 (tables 2 and 3). The increase in U.S. nonliquid assets abroad was $9.8 billion in 1969, about $1.0 billion lower than in 1968. Outflows of capital recorded in the balance of payments were slightly lower in 1969. More importantly, price adjustment to the value of outstanding foreign securities held by U.S. residents was large and adverse in 1969 while it was favorable in 1968. This shift offset the favorable impact of an increase in reinvested earnings. As a result, the increase in assets due to factors other than capital flows was only $2,393 million in 1969, compared with $3,125 million in 1968.

The increase in U.S. nonliquid liabilities was only $1.2 billion in 1969, following a $11.0 billion increase in 1968. This $10 billion shift reflected a sharp fall in the inflow of nonliquid funds from abroad as recorded in the balance of payments, and a large swing in price adjustments to foreign portfolio holdings in the United States, mostly reflecting the decline in prices of U.S. stocks.

The lower inflow of funds from abroad reflected smaller purchases of private U.S. securities by foreigners, and very large adverse shifts by foreign official agencies in their holdings of long-term time deposits at U.S. banks (table 2, line 33) and of "nonliquid" U.S. Treasury securities (table 2, line 37). These transactions by foreign official agencies are some of the "special financial transactions" which have distorted the liquidity balance in recent years.

Shifts in liquid assets and liabilities of the United States in 1968 and 1969 were even more striking. In the earlier year, U.S. liquid assets—i.e., U.S. monetary reserves—rose $880 million, while liquid liabilities rose only $495 million, producing a $385 million improvement in our net liquidity position. (The change in liquid liabilities included a $214 million adjustment for changes in coverage. Excluding this adjustment, the balance of payments flows were an $880 million increase in reserves and a $709 million increase in liquid liabilities. The difference is equal

Table 1.—Factors Accounting for Changes in the Net International Investment Position of the United States

[Millions of dollars]

Item		Average 1951–55	Average 1956–60	Average 1961–65	1966 r	1967 r	1968 r	1969 p
Balance on goods, services, and unilateral transfers (surplus (+))		−498	1,002	3,838	2,402	2,243	−336	−885
Adjustment for:	Errors and omissions (receipts (+))	300	173	−610	−514	−1,088	−514	−2,841
Equals:	Net recorded balance of payments capital flows (outflow (+))	−197	1,175	3,227	1,878	1,155	−848	−3,726
	Change in U.S. assets (increase (+))	1,002	3,283	6,097	5,200	8,008	8,501	8,604
	Change in U.S. liabilities (increase (−))	−1,100	−2,108	−3,170	−3,321	−6,853	−9,400	−12,330
Plus:	Net reinvested earnings (increase (+))	670	900	1,072	1,400	1,168	1,637	2,101
Plus:	Changes in net valuation and other adjustments	−370	1 −609	r −240	−10	−2,016	−637	3,147
	of which: Changes in coverage and statistical discrepancies	n.a.	n.a.	n.a.	25	297	108	−185
Equals:	Change in net international investment position of the United States	102	1,466	r 3,426	3,367	307	152	1,522
	Change in U.S. assets (increase (+))	2,143	4,139	r 6,938	5,037	9,591	11,687	11,064
	Change in U.S. liabilities (increase (−))	−2,041	−2,673	r −3,511	−1,670	−9,284	−11,535	−9,542
Addendum:	Net international investment position of the United States at end of period [2]	37,227	44,558	r 61,698	65,065	65,372	65,524	67,046

r Revised. p Preliminary. n.a. Not available.

1. Includes an adjustment for direct investment in Cuba omitted from the data effective 1960.

2. The net position at the end of a given period is equal to the position at the end of the preceding period plus the total net change during the period.

Table 2.—International Investment Position of the United States at Yearend‡

[Millions of dollars]

Line	Type of investment	Total 1960[1]	Total 1965[1]	Total 1968[r]	Total 1969[p]	Western Europe 1968[r]	Western Europe 1969[p]	Canada 1968[r]	Canada 1969[p]	Japan 1968[r]	Japan 1969[p]	Latin American Republics and other Western Hemisphere 1968[r]	Latin American Republics and other Western Hemisphere 1969[p]	Other foreign countries 1968[r]	Other foreign countries 1969[p]	International organizations and unallocated‡ 1968[r]	International organizations and unallocated‡ 1969[p]
1	NET INTERNATIONAL INVESTMENT POSITION OF THE UNITED STATES	44,566	61,686	65,524	67,046	−8,521	−14,090	20,860	22,550	1,453	1,591	16,100	16,863	20,681	23,232	14,812	16,868
2	U.S. assets abroad	85,760	120,457	146,772	157,836	39,721	41,373	31,810	34,323	5,752	6,469	24,523	26,261	27,034	29,542	17,552	19,867
3	Nonliquid	66,409	106,007	131,062	140,872	36,106	38,593	31,806	34,323	5,731	6,408	24,523	26,261	27,034	29,542	5,370	5,684
4	Private	49,430	81,828	102,519	110,152	28,177	30,310	31,795	34,308	5,005	5,737	19,053	20,430	13,777	14,072	4,113	4,384
5	Long-term	44,447	71,375	89,529	96,029	24,738	26,721	30,581	32,600	1,682	2,110	16,103	16,990	12,314	12,360	4,112	4,384
6	Direct investments[2]	31,865	49,474	64,983	70,763	19,407	21,554	19,535	21,075	1,050	1,218	13,101	13,811	9,160	10,043	[3] 2,731	[3] 3,060
7	Foreign dollar bonds	4,891	9,118	10,584	10,670	652	483	5,005	5,110	399	285	721	698	1,507	1,600	1,381	1,324
8	Other foreign bonds	633	1,060	1,126	1,133	104	24	741	692	(*)	(*)	211	242	69	65	....	....
9	Foreign corporate stocks	2,964	5,048	6,452	6,043	2,800	2,816	3,201	3,400	74	308	101	114	177	319	....	....
10	Claims reported by U.S. banks	1,698	4,317	3,367	3,037	627	451	228	240	122	88	1,377	1,390	1,113	957	....	....
11	Other[4]	1,276	[r] 2,371	3,023	3,464	1,140	1,290	881	990	127	141	692	761	274	373	....	....
12	Short-term	4,983	10,153	12,990	14,123	3,430	3,489	1,214	1,706	3,323	3,627	3,650	3,435	1,463	1,706	1	(*)
13	Claims reported by U.S. banks	3,594	7,735	8,711	9,506	1,181	1,418	533	826	3,114	3,372	2,980	2,885	994	1,185	....	(*)
14	Other[4]	1,389	2,418	4,279	4,617	2,269	2,171	681	882	209	255	661	658	469	521	1	(*)
15	U.S. Government	16,979	23,470	28,543	30,720	8,021	8,283	11	15	726	731	5,270	5,822	13,257	14,570	1,257	1,300
16	Long-term credits[5]	14,087	20,318	25,940	28,210	7,806	8,034	4	10	677	698	5,237	5,792	10,965	12,382	1,252	1,295
17	Repayable in dollars	N.A.	14,068	19,967	21,971	6,730	6,981	4	10	577	599	4,644	5,120	6,780	7,966	1,252	1,295
18	Other[6]	N.A.	6,250	5,973	6,239	1,076	1,053	....	....	100	99	593	672	4,285	4,416	....	....
19	Foreign currencies and other claims	2,892	3,151	2,603	2,510	216	249	7	5	49	33	33	30	2,293	2,188	5	5
20	Liquid: U.S. monetary reserve assets	19,359	15,450	15,710	16,964	3,623	2,780	4	(*)	1	1	....	....	....	....	12,182	14,183
21	Gold	17,804	13,806	10,892	11,859	....	....	....	....	....	....	....	....	....	....	10,892	11,859
22	Convertible currencies	....	781	3,528	2,781	3,623	2,780	4	(*)	1	1	....	....	....	....	....	....
23	IMF gold tranche position	1,555	863	1,290	2,324	....	....	....	....	....	....	....	....	....	....	1,290	2,324
24	U.S. liabilities to foreigners	41,206	58,759	81,248	89,790	48,242	55,463	10,950	11,773	4,279	4,878	8,423	9,398	6,353	6,310	2,740	2,969
25	Nonliquid	19,654	29,644	47,634	48,872	30,934	32,707	7,820	7,489	960	1,029	4,050	3,642	2,757	2,548	1,113	1,458
26	Private	19,383	27,302	42,890	43,945	28,060	29,590	6,468	6,387	930	996	4,015	3,596	2,298	2,099	1,113	1,458
27	Long-term	18,418	26,394	40,353	40,289	26,301	27,452	6,187	6,040	446	853	3,803	3,341	2,101	1,832	1,113	1,458
28	Direct investments	6,910	8,797	10,815	11,818	7,750	8,510	2,480	2,834	181	170	183	193	43	106	....	....
29	Corporate and other bonds	649	875	4,214	4,800	3,366	3,770	80	87	(*)	(*)	140	141	96	83	534	730
30	Corporate stocks	9,302	14,596	19,551	18,140	13,165	13,108	3,285	2,060	9	10	2,384	2,184	550	738	148	100
31	Liabilities reported by U.S. banks	7	513	3,168	2,400	17	54	1	(*)	658	665	850	525	1,283	997	431	550
32	To private foreigners	7	393	826	983	6	54	N.S.S.	N.S.S.	N.S.S.	N.S.S.	345	316	N.S.S.	N.S.S.	431	550
33	To foreign official agencies	....	120	2,341	1,507	11	....	N.S.S.	N.S.S.	N.S.S.	N.S.S.	511	209	N.S.S.	N.S.S.	....	....
34	Other[4]	1,580	[r] 1,610	2,607	2,738	1,982	2,012	173	178	(*)	12	262	224	200	210	....	....
35	Short-term[4]	964	989	2,537	2,058	1,758	2,048	281	276	91	143	212	254	196	230	(*)	(*)
36	U.S. Government	272	2,282	4,744	4,927	2,876	3,207	1,341	1,102	11	33	35	47	458	470	....	....
37	Certain liabilities to foreign official agencies[7]	2	400	2,723	2,645	1,029	1,251	1,314	1,120	....	....	....	....	350	265	....	....
38	Other	271	1,784	2,021	2,282	1,840	1,956	27	33	11	33	35	47	80	214	....	....
39	Liquid	21,549	29,115	33,614	41,918	17,308	22,756	3,181	4,284	3,320	3,849	4,773	5,756	3,306	3,762	1,027	1,511
40	To private foreigners[8]	9,139	12,909	20,103	28,967	10,307	16,897	2,649	3,789	N.S.S.	N.S.S.	3,465	4,092	N.S.S.	N.S.S.	507	402
41	To banks[9]	4,818	7,410	14,473	23,645	8,872	15,383	N.S.S.	N.S.S.	N.S.S.	N.S.S.	786	1,992	N.S.S.	N.S.S.	....	(*)
42	To others[9]	4,321	5,499	5,631	5,343	1,435	1,514	N.S.S.	N.S.S.	N.S.S.	N.S.S.	2,619	2,100	N.S.S.	N.S.S.	507	402
43	To foreign official agencies	12,410	16,206	13,511	12,011	7,001	5,859	532	495	N.S.S.	N.S.S.	1,308	1,664	N.S.S.	N.S.S.	1,020	1,010
44	Reported by U.S. banks	4,019	5,014	5,600	7,227	2,730	3,250	N.S.S.	N.S.S.	N.S.S.	N.S.S.	1,256	1,643	N.S.S.	N.S.S.	230	210
45	U.S. Treasury obligations	8,391	10,202	7,912	5,784	4,271	2,600	N.S.S.	N.S.S.	N.S.S.	N.S.S.	112	51	N.S.S.	N.S.S.	800	800
46	*Addenda:* Total liquid liabilities	21,549	29,115	33,614	41,918	17,308	22,756	3,181	4,284	3,329	3,849	4,773	5,756	3,306	3,762	1,027	1,511
47	Private, reported by U.S. banks	11,063	17,106	24,457	34,064	12,581	19,080	2,616	3,770	2,090	2,564	4,501	5,442	2,383	3,077	196	236
48	U.S. Treasury Marketable or convertible bonds and notes	[10] 2,326	3,630	[10] 1,667	1,617	1,183	1,080	384	272	9	61	30	33	36	33	25	32
49	U.S. Treasury bills, certificates, and other obligations	8,161	8,360	7,260	6,218	3,544	1,084	181	242	1,230	1,234	142	61	977	652	1,190	1,035
50	Gold deposits of IMF	....	34	230	210	....	....	....	....	....	....	....	....	....	....	230	210

r Revised
p Preliminary.
N.A. Not available
*Less than $500,000 (±).
‡Includes U.S. gold stock.
N.S.S. Not shown separately.

1. Unrevised except where indicated; otherwise the data are as published in the SURVEY, October 1969.
2. Excludes data for Cuba after 1959.
3. For the most part represents the estimated investment in shipping companies registered primarily in Panama and Liberia.
4. These items mostly reflect transactions by U.S. nonbank residents as reported in lines 39, 40, 55, and 56 in balance of payments table 1, SURVEY, September 1970, page 30. However, the long-term position data given here include estimates for real estate, insurance, estates, and trusts, and prior to 1961, the short-term position data include an omissions estimate.
5. Also includes paid-in capital subscription to international financial institutions (other than IMF) and outstanding amounts of miscellaneous claims which have been settled through international agreements to be payable to the U.S. Government over periods in excess of 1 year. Excludes World War I debts that are not currently being serviced.
6. Includes indebtedness which the borrower may contractually, or at its option, repay with its currency, with a third country's currency, or by delivery of materials or transfer of services.
7. Represents U.S. Government liabilities that are held in reserve assets of official monetary institutions. Also includes U.S. Government notes held by the Canadian Government in connection with the 1964 Colombia River power rights arrangements.
8. Includes liabilities to international and regional organizations.
9. As reported by U.S. banks: ultimate ownership is not identified.
10. A significant change in reporting coverage of the data occurred between this period and the preceding period.

NOTE.—Data for Japan are presented for the first time; the estimates are based on developments since 1946.

to the $171 million surplus in the liquidity balance recorded for 1968.)

In 1969, on the other hand, U.S. reserve assets rose $1,254 million, while liquid liabilities rose $8,304 million, producing a deterioration in our net liquidity position of $7,050 million. (Considering only balance of payments flows, the difference between the increase in reserves and the increase in liquid liabilities is $7,012 million, which is equal to the recorded deficit in balance of payments on the liquidity basis for 1969.)

Liquidity structure

The evolution of the liquidity structure of U.S. assets and liabilities can be conveniently analyzed in terms of the ratios computed in table 4 and shown in chart 9. It must be recognized, however, that within each of the categories of assets and liabilities used, the degree of liquidity of the various components is difficult to judge and can vary considerably. This difficulty increases when a number of categories are combined. Partly reflecting these considerations,

Table 3.—Changes in the International Investment Position of the United States Reconciled with Balance of Payments Capital Flows

[Millions of dollars]

Net International Investment Position and U.S. Assets Abroad

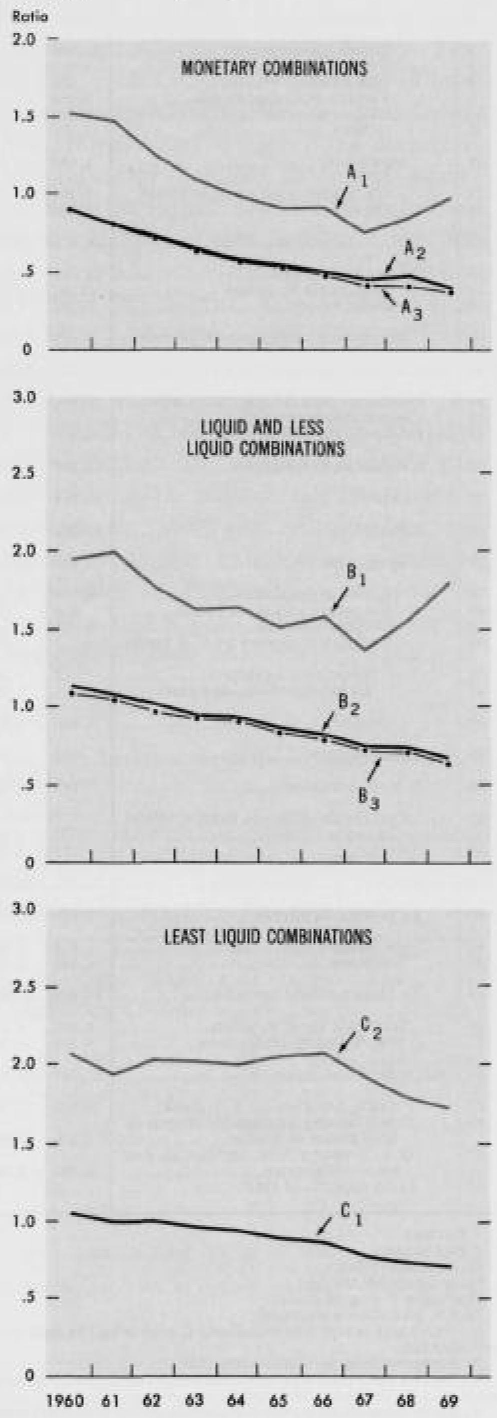
Lines in table 2	Item (increase +)	1968 r	1969 p
1	**NET INTERNATIONAL INVESTMENT POSITION OF THE UNITED STATES**	152	1,522
	Balance of payments capital flows	−848	−3,726
	Other than capital flows	1,000	5,248
2	**U.S. assets abroad**	11,687	11,064
	Capital flows	8,561	8,604
	Other than capital flows	3,125	2,460
3	Nonliquid	10,807	9,810
	Capital flows	7,681	7,417
	Other than capital flows	3,125	2,393
4	Private	8,580	7,633
5	Long-term	7,493	6,500
6	Direct investments	5,492	5,780
	Capital flows	3,209	3,070
	Reinvested earnings	2,175	2,532
	Valuation adjustments	108	178
7,8	Foreign bonds	925	8
	Capital flows	1,099	1,027
	Price changes	−174	−1,019
9	Foreign corporate stocks	1,214	501
	Capital flows	155	467
	Price changes	1,059	34
10–11	Claims reported by U.S. banks and Other	−138	211
	Capital flows	−138	94
	Changes in coverage		117
12	Short-term	1,087	1,133
	Capital flows	1,087	575
	Changes in coverage		558
15	U.S. Government	2,227	2,177
16	Long-term credits	2,297	2,270
	Capital flows	2,331	2,273
	Losses on write-offs	−6	−3
	Valuation adjustments	−29	
19	Foreign currencies and other claims	−70	−93
	Capital flows	−62	−89
	Valuation adjustments	−14	−8
	Statistical discrepancies	6	4
20	Liquid: U.S. monetary reserve assets	880	1,254
	Capital flows	880	1,187
	Other than capital flows		67
21	Gold	−1,173	967
22	Convertible currencies	1,183	−747
	Capital flows	1,183	−814
	Valuation adjustments		67
23	IMF gold tranche position	870	1,034

U.S. Liabilities to Foreigners

Lines in table 2	Item (increase +)	1968 r	1969 p
24	**U.S. Liabilities to foreigners**	11,535	9,542
	Capital flows	9,409	12,330
	Other than capital flows	2,125	−2,788
25	Nonliquid	11,040	1,238
	Capital flows	8,700	4,131
	Other than capital flows	2,339	−2,893
26	Private	9,105	1,055
27	Long-term	8,346	633
28	Direct investments	892	1,003
	Capital flows	319	832
	Reinvested earnings	488	431
	Valuation adjustments	85	−260
29	Corporate and other bonds	2,093	586
	Capital flows	2,292	1,547
	Price changes	−200	−961
30	Corporate stocks	4,040	−1,411
	Capital flows	2,096	1,565
	Price changes	1,944	−2,966
	Valuation adjustments		−10
31–34	Liabilities reported by U.S. banks and Other	1,321	455
	Capital flows	1,321	15
	Changes in coverage		440
35	Short-term	759	422
	Capital flows	759	76
	Changes in coverage		346
36	U.S. Government	1,935	183
37	Certain liabilities to foreign official agencies	1,807	−78
	Capital flows	1,807	−162
	Valuation adjustments		84
38	Other	128	261
	Capital flows	107	258
	Valuation adjustments		10
	Statistical discrepancies	21	−7
39	Liquid	495	8,304
	Capital flows	709	8,199
	Other than capital flows	−214	105
40	To private foreigners	3,663	8,804
41	To banks	3,387	9,193
	Capital flows	3,387	9,217
	Changes in coverage		−24
42	To others	276	−389
	Capital flows	423	−501
	Changes in coverage	−147	112
43	To foreign official agencies	−3,168	−500
44	Reported by U.S. banks	−524	1,628
45	U.S. Treasury obligations	−2,644	−2,128
	Capital flows	−2,577	−2,145
	Valuation adjustments		17
	Changes in coverage	−67	

CHART 9

Liquidity Ratios: Outstanding U.S. Assets Abroad to Liabilities to Foreigners by Degree of Liquidity



Note.—Refer to table 4 for data.

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Table 4.—Liquidity Ratios: Outstanding U.S. Assets to Liabilities to Foreigners by Degree of Liquidity

Refer to chart 9	Lines in table 2	Ratios	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
		MONETARY COMBINATIONS										
A_1	20 / 33, 37, 43	Reserves / Liabilities to foreign official agencies	1.60	1.40	1.25	1.10	1.00	0.92	0.93	0.76	0.85	0.99
A_2	20 / 30	Reserves / All liquid liabilities	.90	.80	.72	.64	.57	.53	.50	.45	.47	.40
A_3	20 / 33, 37, 39	Reserves / All liquid liabilities and nonliquid liabilities to foreign official agencies	.90	.80	.71	.63	.56	.53	.48	.41	.41	.37
		LIQUID AND LESS-LIQUID COMBINATIONS										
B_1	20, 12 / 33, 37, 43	Reserves and short-term private claims / Liabilities to foreign official agencies	1.90	2.00	1.78	1.63	1.65	1.53	1.49	1.38	1.58	1.81
B_2	20, 12 / 33, 37, 39	Reserves and short-term private claims / All liquid liabilities and nonliquid liabilities to foreign official agencies	1.13	1.06	1.01	.94	.93	.86	.83	.75	.74	.67
B_3	20, 12 / 33, 36, 37, 39	Reserves and short-term private claims / Liquid and near-liquid liabilities, excluding portfolio	1.08	1.04	.97	.92	.91	.83	.79	.71	.70	.63
		LEAST LIQUID COMBINATIONS										
C_1	20, 12, 7, 8, 9 / 29, 30, 33, 35, 37, 39	Reserves, short-term private claims, and portfolio investment / Liquid and near-liquid liabilities, including portfolio	1.04	.99	1.00	.95	.93	.88	.80	.77	.72	.69
C_2	2 / 24	Total U.S. assets abroad / Total U.S. liabilities to foreigners	2.08	1.96	2.03	2.02	2.01	2.05	2.08	1.94	1.81	1.74

the assets and liabilities compared in the various ratios are not necessarily of equal liquidity.

The ratio of U.S. reserves to U.S. liabilities to foreign official agencies (ratio A_1) largely reflects the influence of the balance of payments as computed on the official reserve transactions basis. It is also influenced by the method of financing the official balance, i.e., whether it is financed by a change in U.S. reserves or an increase in liabliities. Reflecting the behavior of all ratios, when the ratio is greater than 1.0 (and reserves exceed liabilities, as from 1960 to 1963) a deficit of a given size will cause a greater reduction in the ratio if it is financed by an increase in liabilities than if it is financed by a decrease in reserves. When the ratio is 1.0 or less, a given loss of reserves has a greater adverse impact than an equal increase in liabilities. Of course, in judging the adequacy of U.S. reserves one must also take into account the absolute level of reserves and liabilities, as well as the ratios.

Reflecting the substantial deficits in the official settlements balance, the A_1 ratio shows a consistent decline from 1960 through 1967, although it flattened in the mid-1960's when the balance temporarily improved. In 1968 and 1969, however, when the official balance was in substantial surplus, the ratio improved. At end 1969, it stood at about 1.0 (about the same as end 1964)—that is, U.S. reserves were equal to our liabilities to foreign official agencies. Of course, with the large official deficit in the first half of 1970, the ratio dropped significantly lower.

The ratio of U.S. reserves to all U.S. liquid liabilities (A_2) is similarly influenced by the liquidity deficit and whether it is financed by an increase in liabilities or a decline in reserves. This ratio has also shown a rather consistent decline reflecting the persistent deficits in the liquidity balance. At end 1969, the ratio was 0.4 (i.e., reserves were less than half of our liquid liabilities).

Including certain nonliquid liabilities to foreign official agencies (which reflect special financial transactions that are considered to distort the liquidity balance) with liquid liabilities and recomputing the ratio (ratio A_3), gives essentially the same impression as the ratio of reserves to only liquid liabilities. However, the adjusted ratio is somewhat lower than the A_2 ratio reflecting the growth in holdings of nonliquid securities by foreign official agencies.

While U.S. reserves are the most highly liquid assets that are available to defend the value of the dollar, part of private short-term claims of banks and nonbanks can be considered sufficiently liquid to provide an offset to the liquid liabilities. Ratios B_1, B_2 and B_3 compare U.S. reserves plus short-term private claims to various combinations of liquid and less-liquid liabilities. The comparison with liabilities to foreign official agencies (B_1) indicates that such assets were about twice such liabilities in the early 1960's, declined to 1.38 in 1967 but then rose to 1.81 by end 1969. Not only is the level of the ratio consistently higher than the ratio of reserves alone to liabilities to official foreign agencies (A_1), but the deterioration from 1960 to 1969 is less pronounced. This indicates that the decline in U.S. reserves was to some extent offset by a buildup of generally less-liquid short-term private claims. Some of these claims, such as Eurodollar and money market holdings of banks and nonbanks, are quite liquid; others, such as trade credits, loans and brokers' claims are significantly less so.

The ratios of U.S. reserves and short-term private claims to liquid and less-liquid liabilities (B_2 and B_3) behave in a manner similar to the more monetary ratios computed in A_2 and A_3. However, the deterioration from 1960 to 1969 is not quite as strong, and the levels are somewhat more favorable. (Less liquid liabilities in ratio B_2 are the "nonliquid" liabilities to foreign official agencies. Less-liquid liabilites in ratio B_3 also include short-term private liabilities of nonbanks, such as brokers' liabilities, trade credits and loans from foreigners, a good part of which are probably not easily liquidated.)

Looking at a wider spectrum of assets and liabilities, in ratio C_1, U.S. portfolio assets are added to reserves and short-term private claims and compared with foreign portfolio assets in the United States, as well as with liquid and other less-liquid liabilities (as used in ratio B_3). The impression is similar to that given by the more liquid combinations as A_3 and B_3; however, the deterioration is noticeably less pronounced. Of course, the value of portfolio holdings could decline sharply if either U.S. residents or foreigners attempted to liquify any substantial amounts of their holdings. This is one reason they cannot be considered as liquid as some of the other items discussed.

In general, it appears that there is a persistent tendency for the structure of U.S. assets to become relatively less liquid compared with the structure of U.S. liabilities. The proportion of liquid (or liquid and less-liquid) assets to total assets has tended to fall, while the proportion of liquid (or liquid and less-liquid) liabilities to total liabilities has shown relatively little change. For example, liquid liabilities plus nonliquid liabilities to foreign official agencies have persistently remained about one-half of total liabilities.

The ratio of total assets to total liabilities (C_2) is not intended to measure changes in the liquidity structure of our position. It focuses, instead, on the relative amount by which assets exceed liabilities, similar to the way the net international investment position focuses on the absolute difference between total assets and total liabilities. This ratio was about 2.0 in 1960, essentially remained at that level through 1966, and then declined in 1967 and 1968 as total assets and total liabilities both rose by about the same amount. Even in 1969, when there was a $1.5 billion improvement in the net international investment position, the improvement was not sufficient to prevent a further small decline in the ratio.

U.S. Direct Investments Abroad

The value of U.S. direct investments abroad increased by $5.8 billion in 1969, about $0.3 billion more than in 1968 (table 5). The 1969 increase brought the book value of such assets to $70.8 billion, or 45 percent of the value of all U.S. foreign assets. Capital outflows of $3.1 billion for direct investments abroad in 1969, which includes the use of both U.S. funds and funds raised abroad by U.S. corporations, were only marginally below the 1967 and 1968 level, but substantially below 1966 outflows of $3.7 billion. Reinvested earnings rose $357 million to $2.5 billion in 1969, but this was not as sharp an increase as that which occurred between 1967 and 1968.

A large number of international transactions must be examined in order to determine the balance of payments impact of U.S. direct investments abroad. These associated flows have have been combined with the explicit direct investment flows in table 5. Balance of payments signs are used and therefore increases in U.S. claims abroad are shown as minuses. (It should be noted that some of the accounts include items such as trade credits which are not related to direct investment.)

In addition to the outflow of direct investment funds, one needs to know how much is borrowed abroad by U.S. corporations, either directly from foreign banks and others, or by new issues

Table 5.—Flows of Certain U.S. Corporate Funds—Changes in Foreign Assets and Liabilities, Adjusted Earnings, and Fees and Royalties

[Millions of dollars]

Item, debits (−), credits (+)	Total					Western Europe				
	1965	1966 r	1967 r	1968 r	1969 p	1965	1966 r	1967 r	1968 r	1969 p
Net flow	2,114	3,033	2,621	5,311	5,578	7	−141	414	2,962	2,473
Change in direct investment position	−4,994	−5,323	−4,692	−5,492	−5,780	−1,856	−2,245	−1,610	−1,503	−2,147
Balance of payments flows	−3,468	−3,661	−3,137	−3,209	−3,070	−1,479	−1,834	−1,458	−1,001	−1,158
Reinvested earnings	−1,542	−1,730	−1,598	−2,175	−2,532	−408	−436	−209	−456	−845
Other adjustments	16	76	43	−108	−178	31	20	57	−46	−144
Other corporate claims	343	−434	−590	−992	−356	28	−376	−221	−736	180
Long-term	−65	−112	−281	−220	−424	32	−70	−76	−148	−131
Short-term [1]	408	−322	−309	−772	68	−4	−306	−145	−588	311
Corporate liabilities other than new issues of securities	136	459	446	1,140	969	119	272	325	1,141	806
Long-term	29	180	63	716	691	23	102	64	708	637
Short-term [1]	107	279	383	424	278	96	170	261	433	169
New issues of securities [2]	191	594	446	2,144	1,029	191	594	446	2,144	1,029
Of which: Used for direct investment	−52	−145	−273	−788	−631	n.a.	n.a.	n.a.	n.a.	n.a.
Deposited abroad (short-term corporate claims)	−139	−142	−86	−1,139	−187	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted earnings [3]	5,505	5,776	6,216	7,148	8,171	1,176	1,164	1,049	1,361	1,871
Reinvested earnings	1,542	1,730	1,598	2,175	2,532	408	435	209	456	845
Income on U.S. direct investments abroad	3,963	4,046	4,617	4,973	5,639	768	729	840	905	1,026
Fees and royalties from U.S. direct investment	924	1,030	1,136	1,246	1,369	382	443	473	511	588
Offset to "other adjustments" in direct investment	−16	−76	−43	108	178	−31	−20	−57	46	144

r Revised. p Preliminary. n.a. Not available.
1. Excludes brokerage claims and liabilities.
2. New issues of securities sold abroad by U.S. corporations exclude securities issued by subsidiaries incorporated abroad and also exclude funds obtained by U.S. corporations through bank loans and other credits. However, securities issued by subsidiaries incorporated in the Netherlands Antilles are treated as if they had been issued by U.S. corporations if the proceeds of such issues are transferred to U.S. parent companies.
3. For a discussion of this concept see the technical appendix.

of securities abroad. Furthermore, the various uses of the proceeds of borrowings—whether they are used to finance direct investments abroad at the time of borrowing, or are repatriated to the United States, or are left on deposit abroad for later utilization—have quite different impacts on the balance of payments. The disposition of the U.S. corporations' share of earnings of foreign affiliates—whether they are returned to the United States as income on direct investments or are reinvested abroad—has significant implications for the balance of payments, as does the amount of fees and royalties received by U.S. parents from their direct investments abroad. These effects are summarized in table 5. (As discussed in the Investment Position article in the October 1969 Survey there are a number of influences of U.S. corporate international transactions on the balance of payments which cannot be fully segregated and reflected in the table.)

The net flow of corporate funds in 1969 associated with the identifiable transactions had a favorable impact on the balance of payments of $5.6 billion, an improvement of $0.3 billion over 1968. (The $2.5 billion improvement between 1967 and 1968 was probably associated with the Foreign Direct Investment Program which was made mandatory at the beginning of 1968.)

In 1969, the change in the direct investment position was adverse by $288 million more than in 1968. This mostly reflected an increase in reinvested earnings as capital outflows showed a small improvement. Long-term corporate claims (other than direct investment) shifted adversely by $204 million in 1969; most of this shift was accounted for by the receipt of long-term notes as a result of the liquidation of a major U.S. direct investment in Latin America. The entries in this account and in the direct investment capital flows account due to the liquidation are mostly offsetting.

Borrowing abroad by corporations was down sharply in 1969; new issues of securities declined by $1.1 billion and other inflows from borrowing (as reflected in other corporate liabilities) declined by $180 million. Partly associated with the $1.3 billion adverse movement in borrowing was an improvement of $838 million in short-term claims. In 1968, when borrowing abroad was much higher, corporations left a substantial part of the funds borrowed on deposit abroad which caused a sharp increase in short-term claims. The net effect of the change in borrowing and in short-term claims was an adverse movement of $0.5 billion from 1968 to 1969.

The major improvement among all these accounts was in adjusted earnings on direct investments abroad, which increased by $1.0 billion to $8.2 billion in 1969. Income receipts accounted for $0.7 billion of the increase while the remainder was reinvested abroad. Fees and royalties showed a $123 million improvement between 1968 and 1969.

The $1.1 billion improvement in earnings and fees and royalties exceeded the adverse effects of the other flows by about $150 million; the remainder of the overall improvement of $267 million came from the offset to the direct investment valuation adjustments.

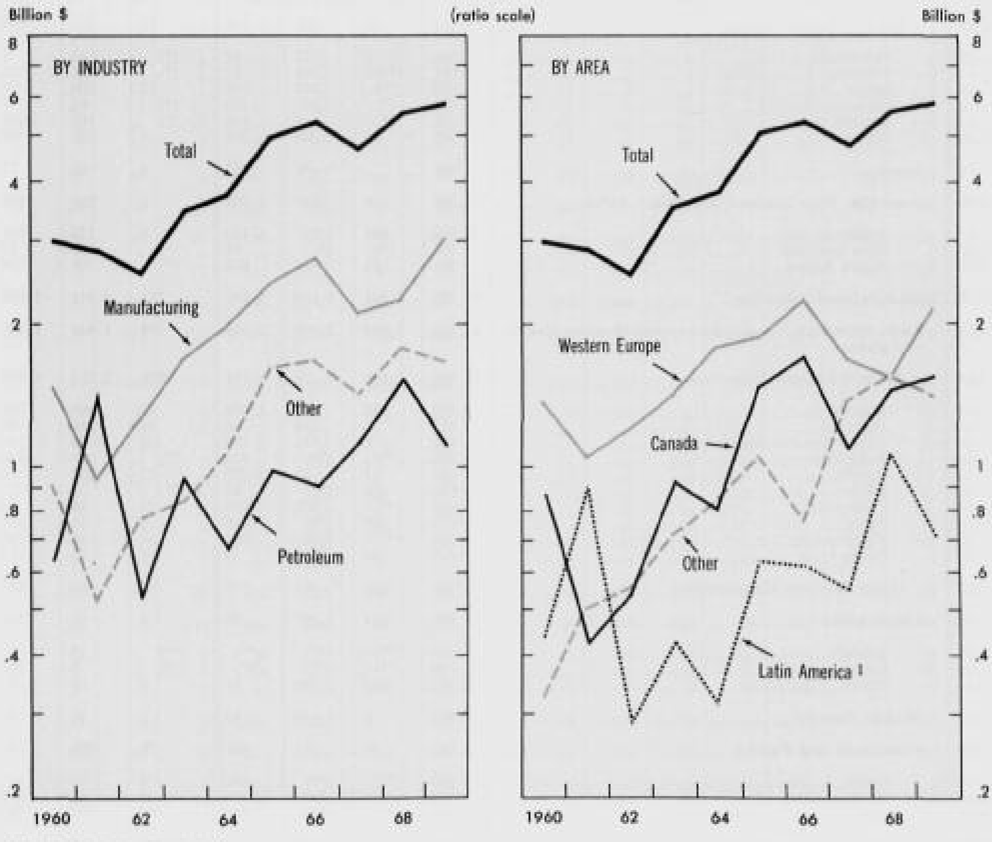
Country and industry distribution of direct investment

The developed countries, which includes Canada, Western Europe, Australia, New Zealand, South Africa, and Japan accounted for $4.2 billion or 73 percent of the $5.8 billion growth in the book value of direct investments during 1969 (table 6, chart 10). In 1968, these areas accounted for $3.4 billion or 62 percent of the $5.5 billion total rise in direct investments. U.S. investment in Canadian affiliates increased by $1.5 billion during 1969, while investment in the European Economic Community (EEC) increased by $1.2 billion.

Investments in less developed countries rose over $1.2 billion last year, about $0.2 billion less than in 1968. The gain would have been about the

CHART 10

Annual Additions to Direct Investments Abroad by Industry and Major Area



1. Includes 'other Western Hemisphere.'

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same in both years except for the involuntary sales of majority interest in two mining enterprises to the Chilean Government and the sale of a public utility company to the Peruvian Government. Despite these sales, investment in the Latin American Republics increased by $0.6 billion. Direct investment in the international, unallocated category rose less than $0.3 billion in 1969, after rising $0.4 billion in 1968.

While the total value of U.S. direct investments abroad is not affected by valuation adjustments made as a result of capital flow between primary and secondary foreign affiliates, country values are adjusted as shown in table 7. And, although not shown in table 7, industry values are also affected.

Manufacturing. U.S. ownership in foreign manufacturing affiliates increased $3.0 billion during 1969 to almost $30.0 billion at yearend. In 1968, the increase was $2.2 billion. Last year's gain reflected reinvested earnings of $1.9 billion and capital outflows of $1.1 billion. Direct investments in manufacturing have shown the greatest increase in value of any industry since 1960 (table 9).

Table 6.—U.S. Foreign Direct Investments,

[Millions

Line	Area and country [2]	A.—Book value at yearend [1]													
		1968 r							1969 p						
		Total	Mining & smelting	Petroleum	Manufacturing	Transportation & utilities	Trade	Other	Total	Mining & smelting	Petroleum	Manufacturing	Transportation & utilities	Trade	Other
1	All areas	64,983	5,435	18,887	26,414	2,672	5,280	6,295	70,763	5,635	19,985	29,450	2,674	5,832	7,184
2	Developed countries	43,600	3,145	9,922	21,716	690	3,608	4,430	47,701	3,315	10,447	24,282	722	4,943	4,992
3	Canada	19,535	2,638	4,094	8,568	590	1,122	2,513	21,075	2,764	4,359	9,389	629	1,221	2,713
4	Europe [4]	19,407	53	4,636	10,796	94	2,299	1,491	21,554	72	4,965	12,225	84	2,415	1,951
5	United Kingdom	6,694	2	1,563	4,243	20	430	446	7,158	2	1,603	4,645	10	455	560
6	European Economic Community	9,012	10	2,140	5,399	54	849	549	10,194	17	2,242	6,340	53	948	592
7	Belgium and Luxembourg	981	(*)	14	591	1	120	205	1,210	(*)	57	700	2	214	237
8	France	1,904	10	202	1,240	14	163	63	2,091	10	205	1,618	8	109	91
9	Germany	3,785	(**)	1,104	2,285	18	264	113	4,252	(**)	1,067	2,750	22	284	128
10	Italy	1,275	(**)	479	617	3	106	72	1,423	(**)	506	716	3	108	93
11	Netherlands	1,069	(*)	257	464	18	157	83	1,218	(*)	316	658	18	175	61
12	Other Western Europe	3,701	40	920	1,165	10	861	600	4,202	52	908	1,329	16	1,013	796
13	Denmark	204	1	111	48	(*)	41	3	300	1	107	58	(*)	40	4
14	Norway	201	(**)	101	52	(*)	20	21	223	(**)	108	62	(*)	24	24
15	Spain	582	(**)	135	306	13	100	29	677	(**)	110	205	5	120	28
16	Sweden	516	(*)	281	130	(*)	88	6	695	(*)	304	170	(*)	112	8
17	Switzerland	1,437	(*)	8	336	(*)	400	625	1,506	(*)	−30	390	1	541	714
18	Other [4]	761	10	202	275	6	137	33	853	24	398	350	6	155	33
19	Japan	1,050	....	405	522	3	90	21	1,218	....	447	630	5	101	35
20	Australia, New Zealand, and South Africa	3,608	445	787	1,930	5	257	185	3,854	479	835	2,038	4	308	290
21	Australia	2,652	365	(**)	1,412	3	124	748	2,936	305	(**)	1,567	4	160	814
22	New Zealand	160	(*)	(**)	85	(*)	37	37	163	−1	(**)	90	(*)	30	36
23	South Africa	696	81	148	333	(*)	90	39	755	84	156	374	(*)	142	28
24	Less developed countries	18,762	2,291	7,490	4,697	774	1,671	1,825	20,300	2,321	7,830	5,167	791	1,787	2,101
25	Latin American Republics and other Western Hemisphere	13,101	1,930	3,680	4,006	665	1,345	1,466	13,811	1,922	3,722	4,347	696	1,405	1,720
26	Latin American Republics	11,033	1,410	3,014	3,711	628	1,261	1,018	11,667	1,346	3,079	4,077	620	1,308	1,230
27	Mexico	1,466	112	44	1,003	27	180	101	1,631	138	36	1,108	26	101	133
28	Panama	910	10	214	66	53	340	235	1,071	10	220	90	56	345	332
29	Other Central America [3]	596	6	151	104	131	42	163	630	6	164	113	129	43	182
30	Argentina	1,150	(**)	(**)	720	(**)	67	300	1,244	(**)	(**)	760	(**)	68	397
31	Brazil	1,484	31	89	1,022	27	107	78	1,633	99	100	1,112	25	188	106
32	Chile	902	654	(**)	60	(**)	39	271	840	483	(**)	96	(**)	41	268
33	Colombia	632	(**)	329	106	20	56	20	684	(**)	342	220	20	53	30
34	Peru	692	421	(**)	90	23	51	101	704	443	(**)	97	(*)	50	100
35	Venezuela	2,627	(**)	1,790	382	18	258	188	2,668	(**)	1,771	416	19	276	186
36	Other [3]	490	52	169	80	40	20	143	554	50	190	97	45	28	150
37	Other Western Hemisphere [3]	2,068	510	607	293	58	84	430	2,144	576	643	270	74	98	484
38	Other Africa [3]	1,978	334	1,407	70	4	67	117	2,215	343	1,598	80	5	71	118
39	Liberia	174	(**)	(**)	(**)	(**)	24	150	172	(**)	(**)	(**)	(**)	24	148
40	Libya	662	(**)	(**)	(**)	(**)	6	656	776	(**)	(**)	(**)	(**)	8	700
41	Other	1,143	243	700	66	7	38	29	1,266	275	843	79	8	41	21
42	Middle East [3]	1,805	3	1,696	65	7	29	56	1,825	3	1,654	80	9	25	56
43	Other Asia and Pacific	1,850	44	762	559	78	239	166	2,145	53	866	659	86	282	201
44	India	281	(**)	(**)	132	1	41	106	294	(**)	(**)	143	1	44	106
45	Philippines	673	(**)	(**)	238	30	61	305	741	(**)	(**)	270	43	97	332
46	Other	915	(**)	(**)	190	37	107	681	1,110	(**)	(**)	247	42	140	680
47	International, unallocated	2,731	....	1,449	....	1,201	1	61	3,081	....	1,705	....	1,159	1	193

r Revised. p Preliminary. *Less than $500,000±. **Combined in other industries.
1. The value of investments in specified industries and countries is affected by capital flows among foreign affiliates as shown in table 7.
2. Does not mean that all countries grouped in an "other" or regional category have U.S. direct investment at any given time.
3. Direct investment statistics do not show any investments in Eastern Europe.
4. Includes Austria, Cyprus, Finland, Gibraltar, Greece, Greenland, Iceland, Ireland, Malta, Portugal, Turkey, and Yugoslavia.

The developed countries accounted for $2.6 billion of the 1969 increase in manufacturing, with Western Europe receiving about $1.4 billion. European machinery industries, electrical and nonelectrical, were major recipients of capital outflows for manufacturing direct investments in 1969 (table 10). Investment in German manufacturing affiliates rose nearly $0.5 billion, of which reinvested earnings contributed $0.3 billion. There were large flows of funds to German subsidiaries from parents early in the year, but after the mark revaluation and before the end of the year, most of the funds were returned to the United States. Common Market countries other than Germany had an increase in investment of nearly $0.5 billion, more than double the rise in 1968. In the United Kingdom investment was up $0.3 billion during 1969, with the bulk of the increase from reinvested earnings. Investment in manufacturing enterprises in "other Western Europe" increased by only $0.2 billion as losses incurred in the start up of new petrochemical and other manufacturing plants in Spain limited the growth in reinvested earnings.

Selected Data Items, Countries, and Industries

of dollars]

B.—Net capital outflows						C.—U.S. share in reinvested earnings of foreign corporations						D.—Earnings						E.—Income						Line
1968 r	1969 p					1968 r	1969 p					1968 r	1969 p					1968 r	1969 p					
Total	Total	Mining & smelting	Petroleum	Manufacturing	Other	Total	Total	Mining & smelting	Petroleum	Manufacturing	Other	Total	Total	Mining & smelting	Petroleum	Manufacturing	Other	Total	Total	Mining & smelting	Petroleum	Manufacturing	Other	
3,209	3,079	62	1,022	1,122	873	2,375	2,632	168	−59	1,901	522	7,022	7,865	841	2,404	3,186	1,432	4,973	5,636	664	2,436	1,326	1,014	1
1,873	1,803	75	432	909	378	1,401	2,063	86	−62	1,627	412	3,347	4,971	390	76	2,439	191	1,976	2,007	224	190	1,042	600	2
625	610	80	178	331	161	772	937	77	16	690	164	1,490	1,542	242	224	806	280	851	782	162	153	255	202	3
1,601	1,159	6	204	577	372	450	845	6	−198	820	218	1,469	1,685	10	−196	1,462	579	906	1,024	6	36	632	354	4
302	284	(**)	40	109	139	211	151	-------	−41	160	24	503	496	(*)	−50	426	121	275	327	(*)	2	233	92	5
438	646	(**)	128	379	143	106	455	(**)	−147	540	63	543	896	(**)	−120	876	140	494	454	(**)	20	330	88	6
76	103	-------	34	16	40	20	76	-------	−24	70	29	90	136	-------	−22	93	65	57	64	-------	−3	94	33	7
−27	63	(**)	−1	74	9	20	84	(**)	3	82	−1	91	175	(**)	16	163	0	66	92	(**)	12	71	8	8
242	231	(**)	41	160	29	63	230	(**)	−77	300	10	258	407	(**)	−69	437	40	208	234	(**)	29	178	24	9
28	100	(**)	16	63	11	6	28	(**)	−35	51	12	40	70	(**)	−36	84	22	43	42	(**)	−1	34	10	10
118	123	(*)	40	56	23	4	29	-------	−16	40	−4	66	41	-------	−27	60	8	52	30	-------	−12	30	12	11
300	230	(**)	30	63	97	130	230	(**)	−0	101	146	323	470	(**)	−8	160	328	100	240	(**)	4	63	179	12
−93	58	(*)	46	4	3	−6	4	-------	−5	5	4	−3	11	-------	−8	11	10	7	8	-------	−2	4	6	13
12	0	(**)	3	5	2	5	18	(**)	−1	5	9	−1	0	(**)	−10	5	13	−8	−3	(**)	−8	1	5	14
100	−10	(**)	−18	5	4	3	7	(**)	−1	−11	18	10	22	(**)	3	−2	21	17	15	(**)	3	0	3	15
69	70	-------	31	37	11	−11	11	-------	−5	5	14	17	25	-------	−8	12	21	20	17	-------	(*)	8	8	16
12	43	-------	−34	7	70	102	133	-------	−3	40	20	206	201	-------	−3	79	217	105	157	-------	1	31	125	17
46	51	(**)	0	35	8	42	71	(**)	8	51	13	84	120	(**)	17	66	45	46	52	(**)	11	8	33	18
76	43	-------	27	32	4	104	103	-------	16	86	5	167	181	-------	19	142	10	40	70	-------	7	49	13	19
169	153	15	23	80	41	183	194	14	36	123	23	325	393	37	30	223	13	108	209	67	5	106	34	20
161	152	18	(**)	70	63	120	138	12	(**)	86	30	193	247	80	(**)	182	34	85	131	37	(**)	84	10	21
1	−6	(*)	(**)	−2	−2	12	0	-------	(**)	0	3	14	10	(*)	(**)	12	7	2	16	(*)	(**)	0	4	22
6	6	1	(**)	1	3	26	60	2	(**)	31	17	111	127	30	(**)	48	43	74	65	20	(**)	10	22	23
1,106	789	−23	347	213	222	495	590	72	−7	273	162	3,444	3,747	511	2,287	863	486	2,038	3,273	439	2,236	264	253	24
677	346	−31	66	132	687	358	376	43	−16	225	123	1,674	1,034	448	162	467	266	1,216	1,277	404	472	237	164	25
477	271	−87	67	108	143	200	302	42	11	213	36	1,305	1,401	334	412	436	218	1,049	1,040	287	306	230	140	26
63	93	13	−11	49	42	63	69	11	1	42	4	132	141	18	4	104	15	67	74	0	2	64	12	27
72	84	(*)	21	13	53	47	55	-------	6	10	38	97	121	-------	0	32	80	56	70	-------	4	14	62	28
24	30	2	3	11	20	0	−1	-------	1	−2	(*)	30	30	3	−3	1	26	33	20	3	−4	3	20	29
30	01	(**)	(**)	25	26	35	30	(**)	(**)	23	2	120	139	(**)	(**)	91	48	94	135	(**)	(**)	98	47	30
80	04	(**)	1	32	30	74	82	(**)	19	65	5	100	157	(**)	21	123	12	75	66	(**)	6	53	9	31
70	−137	−143	(**)	1	3	3	43	26	(**)	1	16	155	102	141	(**)	−3	24	144	114	106	(**)	−4	10	32
34	30	(**)	17	13	0	1	14	(**)	2	10	3	17	34	(**)	11	18	4	10	20	(**)	10	0	2	33
24	1	31	(**)	−2	−18	8	11	2	(**)	3	0	104	110	104	(**)	7	8	85	105	102	(**)	4	3	34
20	−26	(**)	−8	(*)	−21	58	81	(**)	2	33	20	430	405	(**)	334	57	74	430	401	(**)	322	23	48	35
40	53	−3	35	7	14	3	−3	1	−14	4	6	36	38	14	7	0	11	34	42	13	22	2	0	36
200	74	50	−1	−20	46	49	14	1	−28	13	28	219	233	116	60	10	46	169	228	118	78	10	24	37
392	169	(*)	170	4	−6	51	67	29	21	7	30	640	661	47	577	9	28	619	616	39	498	2	18	38
−3	−7	(**)	(**)	(**)	−7	5	3	(**)	(**)	(**)	3	20	17	(**)	(**)	(**)	17	15	15	(**)	(**)	(**)	15	39
203	107	(**)	(**)	(**)	107	11	8	(**)	(**)	(**)	0	500	611	(**)	(**)	(**)	611	406	606	(**)	(**)	(**)	600	40
100	60	3	57	4	6	36	48	20	20	7	2	42	42	67	−27	0	13	9	−4	26	−40	2	12	41
40	71	(*)	50	15	6	24	−49	(*)	−45	2	3	1,091	1,153	(*)	1,133	6	15	1,070	1,196	-------	1,161	3	12	42
127	175	8	71	63	34	63	97	1	32	39	26	211	279	−8	115	81	86	141	184	−4	87	42	58	43
7	3	-------	(**)	4	−1	7	10	-------	(**)	7	3	21	27	-------	(**)	21	7	11	14	-------	(**)	11	2	44
24	41	(**)	(**)	24	17	16	20	(**)	(**)	0	19	55	65	(**)	(**)	24	41	34	38	(**)	(**)	10	22	45
90	131	(**)	(**)	34	97	41	61	(**)	(**)	26	37	136	187	(**)	(**)	30	141	85	133	(**)	(**)	14	119	46
191	316	-------	243	-------	73	188	−62	-------	(*)	-------	−62	231	237	-------	132	-------	106	46	280	-------	137	-------	161	47

5. Includes Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.
6. Includes Bolivia, Dominican Republic, Ecuador, Haiti, Paraguay, and Uruguay.
7. Includes all of the Western Hemisphere except Canada and the 19 Latin American Republics included in line 20.
8. Includes United Arab Republic (Egypt) and all other countries in Africa except South Africa.
9. Includes Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Qatar, Saudi Arabia, Southern Yemen, Syria, Trucial States, Oman, and Yemen.

Table 7.—Net Capital Flows Between Primary and Secondary Foreign Affiliates

[Millions of dollars; net inflow (−)]

	1965	1966	1967	1968	1969 p
Canada	−8	16	1	−1	7
Europe	43	30	10	−5	2
France	22	−6	6	−3	−19
Germany	−22	−16	−3	−2	6
Italy	−9	−7	13	8	11
Switzerland	77	28	30	−11	6
United Kingdom	−2	47	−15	4	−28
Other	−22	−16	−21	−1	26
Latin American Republics and other Western Hemisphere	−8	−6	−20	6	−8
Argentina	−5	4	−1	−3	3
Mexico	−5	2	3	1	−1
Panama	8	7	10	−2	−13
Other	−6	−19	−32	10	3
Other countries	−27	−40	9	(*)	−1

p Preliminary.
* Less than $500,000±.

The value of manufacturing enterprises in the less developed countries increased by only $0.5 billion in 1969, with the bulk of the rise going to the Latin American Republics.

Petroleum. Investment in petroleum affiliates amounted to $20.0 billion at the end of 1969, an increase of $1.1 billion from 1968. This increase was significantly smaller than the $1.5 billion rise in 1968, and reflected smaller capital outflows and an adverse shift in reinvested earnings. During 1969, in fact, petroleum companies actually reported negative reinvested earnings of $59 million, compared with positive reinvested earnings of over $0.2 billion in 1968. Disinvestment resulting from repatriating earnings in excess of current earnings was particularly noticeable in the case of certain tanker affiliates of oil companies and in the Middle East. The increase in book value of petroleum industry investments in the developed countries accounted for $525 million of last year's $1.5 billion increase, while the less developed countries received $334 million; petroleum affiliates in the international, unallocated category (which is not included in either of the preceding two categories) accounted for the remaining $239 million.

The increase in book value of Canadian petroleum affiliates in 1969 was almost $0.3 billion, about the same as in 1968. The value of investments in European petroleum enterprises increased by less than $0.2 billion in 1969 as capital outflows dropped to $0.2 billion. Earnings were negative (more so than in 1968) which resulted in negative reinvestment of $0.2 billion; however this was largely offset by positive valuation adjustments.

The $334 million rise in book value of petroleum investments in less developed countries was less than half the 1968 increase. The increase in investment in African petroleum affiliates was limited by a large fourth quarter build up of accounts payable by U.S. companies to their producing branches, especially in Libya. Investment in Middle East petroleum enterprises was practically unchanged from 1968 as larger capital outflows for the year were offset by negative reinvested earnings.

The increase of investment in international tanker affiliates was slightly less than in 1968. The financing of new super tanker purchases attracted large capital outflows, but larger than usual dividend payments by several companies led to negligible reinvested earnings.

Mining and smelting. U.S. direct investment in foreign mining enterprises increased by $0.2 billion during 1969, much less than the rise in 1968. Reinvested earnings were the same each year, at about $150 million, while capital outflows declined from $0.4 billion in 1968 to less than $0.1 billion in 1969. The involuntary sale of 51 percent ownership in two Chilean mining ventures reduced investment by over $0.2 billion. Even excluding these transactions the rise in investment would have been less than in 1968 due to the fact that some important investment projects in Australia were completed.

Table 8.—Acquisitions and Sales by American Companies of Foreign Enterprises [1] by Area and Industry

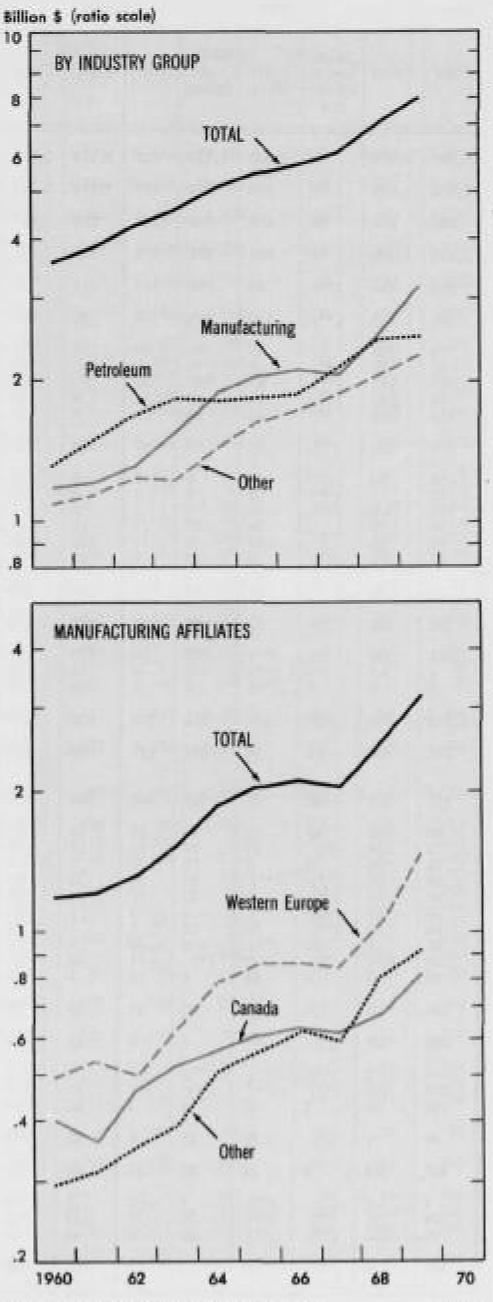
[Millions of dollars]

Area and industry	1968 Acquisitions	1968 Sales	1968 Net	1969 Acquisitions	1969 Sales	1969 Net
All areas	800	220	580	805	163	642
Petroleum	33	11	22	31	(*)	31
Manufacturing	650	141	508	543	90	453
Other industries	117	68	49	231	73	158
Canada	137	3	135	222	40	182
Petroleum	8	----	8	28	----	28
Manufacturing	100	(*)	100	142	27	114
Other industries	29	2	26	52	13	40
Europe	516	145	371	466	50	416
Petroleum	5	1	4	(*)	(*)	(*)
Manufacturing	464	127	336	329	37	292
Other industries	47	17	30	137	13	124
Other areas	147	72	75	116	73	43
Petroleum	20	10	10	2	(*)	2
Manufacturing	86	14	72	72	26	47
Other industries	41	49	−8	41	47	−6

* Less than $500,000.
1. Includes acquisitions and sales of minority interests.

CHART 11

Earnings of Foreign Affiliates



U.S. Department of Commerce, Office of Business Economics 70-10-11

Transportation and public utilities. (Formerly public utilities; there has been no change in the composition of this category.) The $2.7 billion book value of U.S. investments in the transportation and public utilities industries at the end of 1969 was essentially unchanged from 1968, as a small capital outflow was offset by negative reinvested earnings. Capital outflows declined from 1968 to 1969; flows were enlarged in 1968 by security issues in

Table 9.—Selected Data on Direct Investments Abroad, by Major Areas

[Millions of dollars]

Area and year	Book value at yearend					Net capital outflows					Earnings					Income				
	Total	Mining & smelting	Petroleum	Manufacturing	Other	Total	Mining & smelting	Petroleum	Manufacturing	Other	Total	Mining & smelting	Petroleum	Manufacturing	Other	Total	Mining & smelting	Petroleum	Manufacturing	Other
All areas:																				
1960	31,865	2,947	10,810	11,051	7,007	1,674	165	453	801	308	3,566	394	1,302	1,176	694	2,355	337	1,150	550	318
1961	34,717	3,094	12,190	11,997	7,436	1,599	70	793	462	274	3,815	362	1,476	1,203	774	2,768	297	1,336	722	413
1962	37,276	3,244	12,725	13,250	8,057	1,654	97	696	712	239	4,235	372	1,605	1,307	951	3,044	318	1,568	746	415
1963	40,736	3,419	13,652	14,937	8,728	1,976	85	828	774	289	4,587	388	1,624	1,541	934	3,129	321	1,715	656	437
1964	44,480	3,665	14,328	16,935	9,552	2,328	130	760	1,034	396	5,071	512	1,598	1,852	909	3,674	403	1,850	893	522
1965	49,474	3,931	15,298	19,339	10,906	3,468	130	977	1,525	826	5,460	571	1,530	2,022	1,037	3,963	442	1,799	1,094	628
1966	54,799	4,365	16,222	22,078	12,134	3,661	205	885	1,752	716	5,702	690	1,656	2,104	1,071	4,045	524	1,781	1,110	624
1967	59,491	4,876	17,399	24,172	13,044	3,137	330	1,060	1,234	504	6,034	740	2,120	2,058	1,112	4,518	596	1,939	1,193	740
1968	64,983	5,435	18,887	26,414	14,246	3,209	440	1,231	945	592	7,022	796	2,440	2,519	1,259	4,973	644	2,271	1,265	793
1969	70,763	5,635	19,985	29,450	15,693	3,070	89	1,022	1,122	873	7,158	844	2,404	3,186	1,432	5,680	664	2,585	1,325	1,014
Canada:																				
1960	11,179	1,325	2,664	4,827	2,363	451	109	135	20	96	718	88	98	308	184	361	47	60	170	78
1961	11,602	1,367	2,828	5,076	2,331	302	9	100	117	76	729	96	114	350	160	404	51	78	213	122
1962	12,133	1,489	2,875	5,312	2,457	314	85	169	12	66	825	97	121	460	147	476	60	70	221	116
1963	13,044	1,549	3,134	5,761	2,600	366	7	186	120	40	948	127	140	525	147	456	60	90	192	103
1964	13,855	1,713	3,196	6,198	2,748	206	91	25	140	43	1,106	191	170	565	180	634	118	118	200	129
1965	15,318	1,851	3,356	6,872	3,239	962	51	179	365	387	1,299	198	183	606	222	703	110	122	315	156
1966	17,017	2,060	3,608	7,692	3,626	1,153	172	166	566	299	1,237	191	196	628	222	756	120	112	354	170
1967	18,102	2,342	3,819	8,095	3,847	408	175	115	20	109	1,327	240	207	613	267	709	154	132	296	206
1968	19,535	2,638	4,094	8,568	4,235	625	105	169	25	236	1,400	275	245	672	300	851	169	100	301	221
1969	21,075	2,794	4,359	9,380	4,563	619	50	178	231	161	1,543	253	223	800	280	762	152	152	255	202
Europe:																				
1960	6,691	49	1,763	3,804	1,075	962	(*)	273	597	62	769	10	91	487	181	397	11	55	241	90
1961	7,742	48	2,152	4,255	1,287	724	(*)	376	239	115	637	6	63	530	236	466	9	47	230	104
1962	8,930	49	2,385	4,883	1,612	865	3	220	453	183	844	5	60	490	289	526	7	63	334	122
1963	10,340	55	2,776	5,634	1,875	924	1	302	385	166	996	4	57	627	298	507	6	73	305	123
1964	12,129	50	3,122	6,587	2,304	1,388	2	414	619	353	1,115	4	8	782	321	659	5	64	427	163
1965	13,985	55	3,427	7,606	2,898	1,479	−1	343	760	378	1,176	8	−41	850	359	765	8	17	532	211
1966	16,234	54	4,003	8,879	3,297	1,834	1	657	800	377	1,161	10	−79	840	370	729	11	4	489	225
1967	17,926	61	4,425	9,798	3,645	1,469	7	523	663	244	1,143	6	−90	847	388	849	7	6	561	275
1968	19,407	61	4,630	10,798	3,914	1,001	−2	317	562	123	1,360	8	−137	1,041	457	906	6	1	582	316
1969	21,554	72	4,808	12,225	4,443	1,158	0	904	577	372	1,855	10	−198	1,462	570	1,026	6	35	632	354
Japan:																				
1960	254	....	135	91	28	18	....	9	7	3	32	....	14	8	10	15	....	5	4	6
1961	302	....	155	103	41	29	....	23	7	−1	34	....	13	10	11	15	....	3	5	7
1962	373	....	198	122	53	54	....	41	9	4	39	....	5	12	10	19	....	7	4	9
1963	472	....	260	145	67	68	....	55	12	1	49	....	11	28	10	21	....	7	7	8
1964	598	....	315	207	77	78	....	51	23	4	60	....	4	41	16	30	....	8	8	14
1965	675	....	321	275	79	19	....	−3	21	2	91	....	14	55	22	47	....	9	17	21
1966	756	....	331	334	91	32	....	−1	22	11	91	....	10	56	19	43	....	8	18	17
1967	870	....	347	425	98	34	....	(*)	31	3	123	....	21	85	16	40	....	9	22	15
1968	1,050	....	405	522	123	78	....	46	11	21	167	....	20	127	20	60	....	8	37	16
1969	1,218	....	447	639	132	63	....	27	32	4	181	....	10	142	19	70	....	7	40	13
Australia, New Zealand, and South Africa:																				
1960	1,195	79	373	603	141	23	−6	−9	24	11	102	25	22	101	14	71	18	−1	45	8
1961	1,331	88	433	636	175	89	3	42	20	24	161	21	10	89	22	103	14	2	78	11
1962	1,639	107	493	742	298	127	7	24	70	16	190	20	28	129	20	107	13	−5	87	13
1963	1,793	146	627	891	229	100	12	29	61	8	220	21	20	155	29	97	13	3	66	10
1964	2,063	168	570	1,053	263	137	11	31	64	32	229	30	10	169	22	108	18	4	65	19
1965	2,334	237	616	1,185	305	176	57	43	45	27	240	42	11	157	30	140	28	6	70	10
1966	2,658	324	646	1,332	354	107	77	11	65	18	292	63	22	161	40	139	29	3	70	17
1967	3,172	419	720	1,640	394	384	70	46	223	28	299	60	18	170	38	139	38	−5	83	22
1968	3,508	446	797	1,830	445	171	22	40	83	26	320	64	19	192	40	161	45	−2	82	24
1969	3,844	470	836	2,020	516	163	10	23	80	41	393	87	30	223	63	200	67	5	100	31
Latin American Republics and other Western Hemisphere:																				
1960	8,365	1,319	3,122	1,521	2,403	149	−60	24	125	60	970	224	370	147	229	720	234	381	64	99
1961	9,239	1,332	3,474	1,707	2,526	219	32	63	78	46	1,079	206	478	272	223	834	198	438	76	113
1962	9,524	1,321	3,645	1,944	2,617	29	−13	−67	139	−24	1,170	230	443	173	233	801	221	458	71	111
1963	9,941	1,303	3,696	2,213	2,730	235	24	5	160	56	1,125	210	532	171	203	908	210	544	70	132
1964	10,254	1,404	3,590	2,507	2,754	118	30	7	137	−61	244	248	530	243	196	1,011	246	531	96	137
1965	10,886	1,474	3,546	2,945	2,921	271	43	−74	245	57	1,320	290	513	289	229	995	208	474	123	130
1966	11,498	1,604	3,475	3,318	3,141	307	60	−27	160	125	1,452	359	512	342	230	1,113	327	498	147	140
1967	12,049	1,700	3,473	3,588	3,282	204	71	−66	199	93	1,308	397	510	200	217	1,100	356	480	105	161
1968	12,101	1,080	3,680	4,005	3,486	677	227	177	222	49	1,574	392	531	408	247	1,218	374	489	216	139
1969	12,810	1,922	3,722	4,347	3,821	344	−31	66	182	187	1,634	449	402	457	266	1,277	404	472	237	164
Other areas:																				
1960	4,181	225	2,703	266	987	71	22	17	0	22	915	47	707	34	126	702	27	700	24	46
1961	4,501	259	2,946	220	1,076	235	26	159	7	14	988	31	780	43	127	876	25	769	25	64
1962	4,777	277	3,142	247	1,112	202	15	226	26	2	1,128	30	938	37	162	1,026	17	933	20	44
1963	5,160	317	3,310	303	1,218	276	41	193	36	7	1,243	17	1,045	35	147	1,003	12	1,008	17	66
1964	5,591	324	3,536	383	1,348	312	2	233	60	28	1,318	21	1,077	53	165	1,234	17	1,131	26	60
1965	6,276	325	4,032	455	1,464	602	−12	469	65	27	1,418	33	1,160	68	170	1,310	22	1,169	28	91
1966	6,640	334	4,159	424	1,022	167	−6	100	41	33	1,469	30	1,201	57	175	1,290	27	1,166	20	65
1967	7,372	340	4,617	629	1,770	579	9	448	77	43	1,745	30	1,466	60	189	1,568	32	1,307	30	89
1968	8,293	309	5,295	663	2,040	657	−1	482	40	138	2,102	55	1,774	71	194	1,777	41	1,634	48	74
1969	9,250	308	5,816	921	2,215	732	8	534	81	108	2,369	64	1,957	96	235	2,204	38	1,983	47	280

*Less than $500,000 (±).

the United States by a U.S.-owned Canadian gas transmission company.

Negative reinvested earnings in 1969 were mostly the result of a large dividend payment by an international shipping company to the U.S. parent out of accumulated earnings of previous years.

Trade and other industries. U.S. direct investment in trade and "other" industries increased $1.4 billion last year, up from a rise of $0.9 billion in 1968. In developed countries the 1969 rise was $0.9 billion. Investment in European trade and "other" industries grew by over $0.5 billion; this was about double the 1968 increase and reflected the need for funds both to finance recievables and inventories of trading companies and for the acquisition of banking, financial and service companies. The book value of U.S. investment in trade and "other" industries in the less developed countries increased by $392 million with $325 million going to the Latin American Republics and other Western Hemisphere countries. In the less developed countries, U.S. investment in agricultural enterprises and trading companies accounted for about one-third of the increase while most of the remainder went to service and finance enterprises.

Earnings

Earnings (not adjusted) on U.S. direct investments abroad in 1969 were nearly $8.0 billion, up $0.9 billion over 1968 (table 6D, chart 11). U.S. equity in the earnings of affiliates in the less developed countries increased moderately to more than $3.7 billion in 1969, while earnings in the developed countries increased sharply to $4.0 billion. Earnings of the international, unallocated category were $0.2 billion in both years.

As a result of the continuing climb in earnings, the rate of return on all U.S. foreign direct investments rose to 13.0 percent in 1969, higher than any year in the 1960's during which the average annual yield was 12.6 percent (chart 12). For all industries combined, yields in the less developed countries were consistently higher than those in the developed countries. However, most of this difference reflected the structure of the earnings distribution of petroleum affiliates; earnings in petroleum producing countries are consistently reported as higher than those in developed consuming countries. When rates of return on manufacturing are compared, yields in the two areas are about the same. In 1969, the rate of return on manufacturing investments was 12.7 percent in the less developed countries and 12.9 percent in the developed countries; for the decade, the annual average return on manufacturing investments in each area was 11.8 percent.

With the rise in the rate of return on manufacturing investments abroad to 12.8 percent in 1969, the rate of return of 12.6 percent on comparable domestic investments [2] was exceeded for the first time in a number of years. Over the past ten years yields on domestic investments averaged 12.4 percent, only slightly higher than the 11.8 percent average on direct investments abroad. Their movements over the years, however, have been significantly different, partly reflecting cyclical factors. Domestic yields were lower than yields abroad in the early 1960's reflecting lower profits associated with the domestic recession early in the decade. As the recovery progressed domestic yields surpassed those on foreign investments and reached a peak of 14.7 percent in 1966; during that year the return on foreign manufacturing investments was only 11.5 percent.

The gap was gradually closed during the next few years when economic expansion abroad was particularly strong. In 1969, the return on foreign investments continued to rise while

[2] Petroleum investments are excluded both from manufacturing abroad and from domestic manufacturing. While the rates of return are calculated somewhat differently (see chart 12), the comparison made is probably the most appropriate one.

Table 10.—Net Capital Outflows to Manufacturing Affiliates by Industry

[Millions of dollars]

Area and year	Manufacturing total	Food products	Paper and allied products	Chemicals and allied products	Rubber products	Primary and fabricated metals	Machinery except electrical	Electrical machinery	Transportation equipment	Other industries
All areas:										
1965	1,425	110	90	302	10	81	288	96	406	131
1966	1,742	108	151	508	10	134	236	134	317	170
1967	1,231	84	68	428	26	242	116	115	60	108
1968 r	948	100	−7	203	4	160	71	−2	1	320
1969 p	1,122	154	−11	167	0	135	177	216	84	232
Canada:										
1965	306	18	63	70	6	7	27	18	173	20
1966	666	17	136	90	−2	24	32	20	246	6
1967	20	−10	48	68	7	−23	2	(*)	−73	1
1968 r	26	21	−16	21	−8	39	(*)	(*)	−91	70
1969 p	231	53	−46	−2	0	18	57	41	38	63
Europe:										
1965	761	41	13	97	2	60	240	53	178	78
1966	809	51	22	260	16	74	167	84	91	124
1967	663	65	11	301	2	100	63	108	62	49
1968 r	562	50	0	164	−1	96	98	−28	23	181
1969 p	677	54	28	101	(*)	63	109	111	−2	112
Japan:										
1965	21	2	1	6	(*)	1	2	7	(*)	3
1966	22	(*)	1	(*)	(*)	1	4	12	(*)	3
1967	13	2	1	7	--------	1	1	(*)	--------	1
1968 r	11	(*)	2	12	(*)	1	−10	2	(*)	4
1969 p	32	(*)	(*)	8	(*)	11	−5	6	5	11
Australia, New Zealand and South Africa:										
1965	48	8	3	17	13	−20	11	2	17	−1
1966	65	23	3	17	−3	10	3	−3	2	7
1967	224	5	4	14	8	131	10	1	44	5
1968 r	93	10	−1	25	0	18	0	10	10	−1
1969 p	60	12	−1	18	−8	20	3	3	2	20
Latin American Republics and Other Western Hemisphere:										
1965	240	61	19	82	−1	20	1	10	28	27
1966	160	11	(*)	90	5	14	13	9	−22	30
1967	108	12	3	85	9	31	17	1	−4	45
1968 r	222	12	−1	54	(*)	22	4	9	68	64
1969 p	132	1	0	−4	1	24	21	10	44	29
Other areas:										
1965	66	−3	1	21	−2	10	5	11	1	4
1966	40	4	1	17	2	4	5	4	(*)	(*)
1967	95	10	5	69	2	(*)	21	4	3	7
1968 r	40	7	(*)	16	5	−6	2	6	2	7
1969 p	81	5	1	36	7	3	3	29	1	7

r Revised. p Preliminary. *Less than $500,000 (±).

domestic yields fell with the slowdown in domestic growth.

While these cyclical developments no doubt had a major influence on the rates, other factors were also important. New investments require a seasoning period before they reach their normal profitability. Since a larger portion of manufacturing investment abroad is new, compared with domestic manufacturing investment, this probably contributed to holding the average rate of return on investment abroad below domestic rates. Barring adverse cyclical developments or a surge in new investments, as the sizable amounts of new investments made abroad in the 1960's pass from the initial startup period—when costs are high and markets are being developed—to the "seasoned" stage, total earnings and the rate of return should tend to improve.

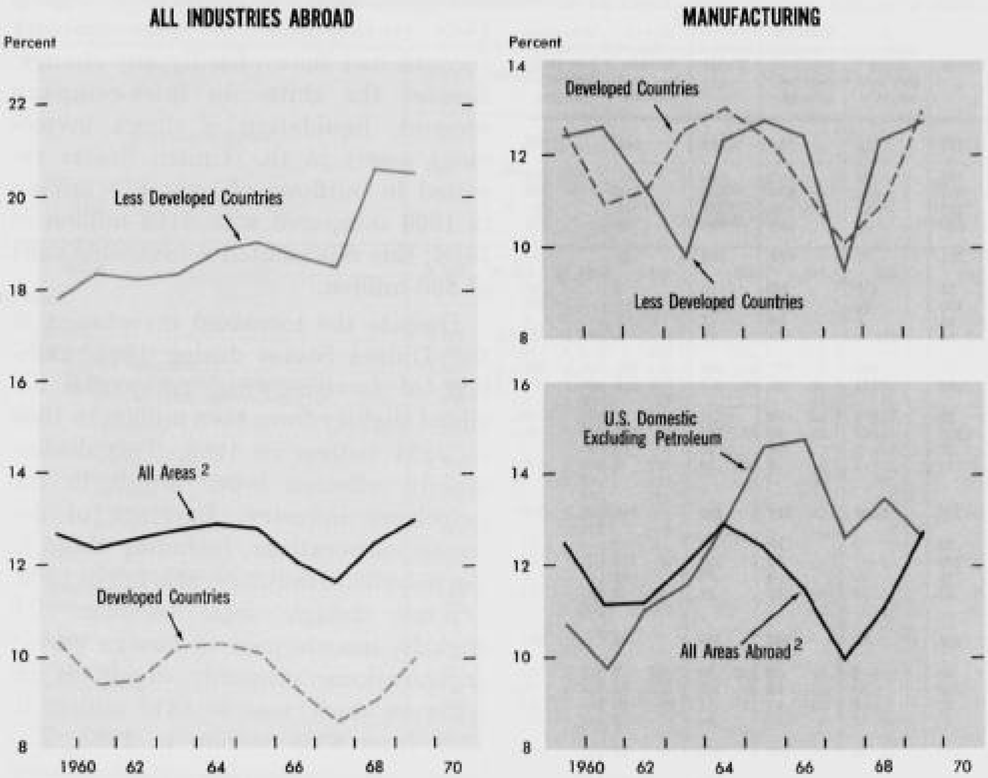
The increased earnings in 1969 principally reflected increases of $666 million in manufacturing industries and $172 million in "other" industries; mining and petroleum affiliates showed increases of less than $50 million.

Earnings of manufacturing affiliates in Europe surged upward by 40 percent to $1,462 million, with Germany accounting for $224 million of the increase. Earnings of manufacturing affiliates in Germany were almost double the 1968 level, no doubt reflecting the strong growth there. In Canada, manufacturing was the only industry showing increased earnings in 1969 and accounted for $806 million of total earnings of $1,542 million.

The U.S. share of earnings of petroleum affiliates in the developed countries dropped from $144 million in 1968 to $76 million in 1969. This was due to higher costs for crude oil and products, mostly as the result of increased tanker costs, which eroded profits of refining and marketing affiliates. European petroleum affiliates suffered particularly high losses of $196 million in 1969, reflecting not only the higher tanker rates but also higher levels of exploration and development expenses in the North Sea offshore ventures. Earnings of petroleum affiliates in the less developed countries increased by $126 million in 1969 despite a decline of $69 million in earnings in the Latin American Republics and other Western Hemisphere countries. Higher costs of production and large expenditures in Ecuador and Colombia, for developing producing fields and construction of pipelines and other facilities, were the major reasons for the decline in the latter area. Petroleum earnings in the other less developed countries increased by $195 million to $1,825 million in 1969, reflecting increased production. Even in these countries, however, earnings were constrained by higher taxes and other costs which were not matched by increases in prices for crude oil at the producing level.

CHART 12

Rates of Return [1] on U.S. Direct Investments Abroad and Domestic Manufacturing Excluding Petroleum



1. Return on direct investments represents earnings plus interest (on intercompany accounts) applied to book value at beginning of year. Return on domestic manufacturing represents net income applied to net worth at beginning of year (as computed by First National City Bank of New York).
2. Data in the direct investments category "international, unallocated" is included in the figures for all areas but excluded from the figures for developed and less developed countries.

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Direct investment income

Income from direct investments amounted to $5.6 billion in 1969, an increase of over 13 percent from 1968; this was about equal to the percentage increase in earnings (table 6E). A disporportionately large share of the increased income—$250 million out of $666 million—was from affiliates in the international, unallocated category. This is largely the result of unusually large dividend payments by tanker affiliates of oil companies. Developed countries accounted for $91 million of the total increase in income and less developed countries $325 million.

Income includes net interest received on intercompany accounts and on the U.S. non-bank held portion of the foreign affiliates long-term debt. Interest is not included in earnings because it is deducted by affiliates as an expense item. Income out of earnings amounted to $5.2 billion in 1969, up by $580 million from 1968; net interest received amounted to $481 million, an increase of $86 million from 1968 and double the 1965 level of $230 million. Not all of the increase in interest receipts represents a net gain to the U.S. balance of payments because U.S. companies have to meet interest charges for capital raised offshore which was relent to their foreign affiliates.

Most of the increase in income from manufacturing affiliates was the result of additional interest receipts as most of the $0.6 billion gain in earnings was reinvested and not returned to the U.S. as balance of payments income. Direct investment income receipts from petroleum affiliates increased about $0.4 billion in 1969 and the $2.6 billion remitted as income slightly exceeded 1969 earnings.

Direct investment royalties and fees

Royalties and fees received by U.S. corporations from foreign affiliates have grown sharply in recent years to nearly $1.4 billion in 1969 (table 11). These receipts from foreign affiliates represent charges to cover a portion of the funds spent by the U.S. firms for research and development of new products and processes, as well as an allocation of the administrative and other expenses incurred by parent companies on behalf of their foreign affiliates. Foreign manufacturing affiliates contributed about $0.9 billion, or 62 percent, of total receipts of royalties and fees, and European manufacturing affiliates accounted for over half of this total.

Foreign Direct Investments in the United States

During 1969 the value of foreign direct investments in the United States rose $1.0 billion to $11.8 billion at yearend, following a $0.9 billion rise in 1968 (tables 12 and 13). Capital inflows ($832 million) and reinvested earning ($431 million) tended to increase investments by $1,263 million in 1969, but this was partially offset by a $260 million downward adjustment in the value of assets held by foreign-owned U.S. companies, primarily securities held by insurance companies. In 1968, capital inflows were much smaller but valuation adjustments were favorable.

Capital inflows to the U.S. affiliates in 1969 reflected new investments of $538 million and other inflows—mostly shifts in intercompany accounts—of $294 million. New investments in manufacturing companies rose sharply while those in petroleum companies declined. In 1968 a foreign international petroleum company purchased more than $200 million of stock in its U.S. subsidiary and there was no similar transaction in 1969. The rise in new investments in manufacturing was fairly widespread, but investments by German parent companies in U.S. chemical affiliates were particularly large.

Capital inflows other than new investments showed a $400 million favorable swing from an outflow of $107 million in 1968. Of this shift, $310 million was due to an increase in the payables (liabilities) of U.S. companies to their foreign parents in 1969. During 1968 transactions on inter-company account had shown hardly any change. Besides the shifts on inter-company account, liquidation of direct investment assets in the United States resulted in outflows of only $17 million in 1969 compared with $108 million in 1968; this represented a favorable shift of $90 million.

Despite the increased investment in the United States during 1969, earnings of foreign-owned companies declined slightly from $868 million in 1968 to $834 million in 1969. This decline mainly reflected lower profits in the petroleum industry. Earnings of domestic corporations, including those in the petroleum industry, also fell in 1969.

Even though total earnings fell slightly, income paid to foreign parent organizations, primarily dividends on common stock, rose to $417 million in 1969 from $388 million in 1968. The lower earnings coupled with increased dividend payments resulted in reinvested earnings of only $431 million in 1969, down $57 million from 1968.

Table 11.—Direct Investment Receipts of Royalties and Fees,[1] by Areas and Major Industries

[Millions of dollars]

Area and industry	1964			1968 r			1969 p		
	Total	Royalties, license fees and rentals	Management fees and service charges	Total	Royalties, license fees and rentals	Management fees and service charges	Total	Royalties, license fees and rentals	Management fees and service charges
All areas	750	264	492	1,246	522	724	1,369	641	728
Petroleum	116	13	103	160	15	145	191	30	161
Manufacturing	470	210	260	801	435	366	853	510	343
Trade	58	22	36	112	43	69	131	75	56
Other industries	103	10	93	174	29	145	134	25	109
Canada	162	41	121	261	77	184	268	92	176
Petroleum	15	(*)	15	15	(*)	15	20	1	19
Manufacturing	124	35	89	195	69	126	188	82	106
Trade	9	3	6	16	6	10	15	6	9
Other industries	14	3	11	34	1	33	48	4	44
Europe	306	147	159	511	294	217	688	381	307
Common Market	150	84	66	269	173	96	299	215	84
Petroleum	8	(*)	8	23	(*)	23	22	1	21
Manufacturing	127	79	48	206	161	45	241	194	47
Trade	6	4	2	27	8	19	21	16	5
Other industries	9	1	8	12	3	9	14	5	9
Other Europe (including United Kingdom)	166	73	93	242	121	121	288	165	123
Petroleum	9	1	8	20	2	18	26	3	23
Manufacturing	109	59	50	179	97	82	204	122	82
Trade	15	6	9	16	12	4	38	34	4
Other industries	26	9	17	27	10	17	21	6	15
Latin American Republics and other Western Hemisphere	142	30	112	236	73	163	239	74	165
Petroleum	32	2	30	33	3	30	39	7	32
Manufacturing	64	25	39	119	50	69	108	52	56
Trade	17	6	11	27	9	18	27	10	17
Other industries	25	2	23	47	5	42	64	5	59
Other areas	140	49	91	248	78	170	273	91	182
Petroleum	51	9	42	68	9	59	84	18	66
Manufacturing	55	21	34	101	51	50	114	61	53
Trade	11	4	7	26	8	18	29	9	20
Other industries	22	6	16	53	10	43	46	5	41

p Preliminary. r Revised. * Less than $500,000. 1. Excludes foreign film rentals.

U.S. Portfolio Investments Abroad

The market value of foreign stocks and bonds held by U.S. residents is estimated at $18.7 billion at yearend 1969, an increase of $0.5 billion during the year (table 2, lines, 7, 8, 9). Outflows of U.S. funds for purchases of such securities totaled $1.5 billion during the year, but rising interest rates and falling bond prices resulted in a $1.0 billion decline in the value of outstanding holdings.

U.S. holdings of foreign bonds remained unchanged from end 1968 to end 1969 at $11.7 billion. The reduction in value due to a sharp drop in bond prices was offset by net balance of payments outflows to acquire additional bonds amounting to $1.0 billion. Outflows of U.S. funds to purchase new foreign issues of bonds amounted to $1.5 billion and were down slightly from 1968; issues by the World Bank and by less developed countries declined, although new Canadian issues increased (table 14). Inflows due to redemptions and to U.S. net sales of outstanding bonds amounted to $0.5 billion.

The market value of U.S. holdings of foreign stocks rose by nearly $0.5 billion to $7.0 billion at yearend 1969, largely due to $0.3 billion in net purchases of outstanding Japanese stocks plus $0.2 billion in purchases of new issues (included in table 14); nearly half of the new issues were Canadian oil stocks. Price changes had little impact on the value of outstanding holdings of foreign stocks.

The significant reduction in the Interest Equalization Tax in April 1969 apparently had little impact on foreign placements of securities in the United States, as nearly all new issues actually placed were exempt. Escalating domestic long-term interest rates during the year were an important factor in reducing foreign bond placements in 1969, particularly by the World Bank and less developed countries. In Canada, on the other hand, demand pressures were quite strong, which led to increases in local borrowing and in placements in the United States.

In the first half of 1970 interest rates in the United States continued upward and foreign bond placements fell to $518 million. A significant drop in Canadian new issues, which was concentrated in the second quarter, accounted for most of the decline; this tendency was reinforced by somewhat more favorable borrowing conditions in Canada.

Foreign Portfolio Investments in the United States

After an extraordinary $6.1 billion increase in the market value of foreign portfolio assets in the United States in 1968, the value of such holdings declined by $0.8 billion in 1969 to $22.9 billion at yearend (table 2, lines 29 and 30). A $3.9 billion decline in the value of outstanding securities due to declining prices of both U.S. equities and bonds was only partly offset by $3.1 billion in capital inflows due to net purchases by

Table 12.—Foreign Direct Investments in the United States, Selected Data Items, Countries, and Industries

[Millions of dollars]

Area and industry	Book value at yearend			Net capital inflows						Earnings [1]		Income [1]		Reinvested earnings [1]	
	1967	1968 r	1969 p	1968 r			1969 p			1968 r	1969 p	1968 r	1969 p	1968 r	1969 p
				Total	New investments [2]	Other	Total	New investments [2]	Other						
Total	9,923	10,815	11,818	319	426	−107	832	438	394	866	894	388	437	486	431
By area:															
Canada	2,575	2,659	2,834	−25	49	−75	343	84	160	162	122	64	47	103	84
Europe	7,085	7,750	8,510	207	363	−6	550	369	101	667	658	398	348	371	318
United Kingdom	3,159	3,400	3,490	114	109	5	88	50	38	271	272	140	159	108	107
European Economic Community	2,485	2,790	3,280	212	190	22	303	244	110	285	269	111	133	173	130
Belgium and Luxembourg	238	273	300	25	....	25	10	....	10	22	19	6	6	19	17
France	265	289	310	10	(*)	10	17	5	12	23	26	11	12	13	14
Germany	318	357	617	34	52	−18	204	134	70	48	22	7	10	38	13
Italy	86	93	96	2	....	2	−2	....	−2	5	8	1	3	4	5
Netherlands	1,508	1,750	1,900	141	138	3	125	105	20	102	185	87	101	103	81
Other Western Europe	1,444	1,651	1,708	−29	4	−33	101	60	42	131	127	48	57	90	81
Sweden	230	209	199	−74	....	−74	−9	....	−9	12	8	7	6	4	3
Switzerland	1,000	1,238	1,305	51	4	47	107	58	49	113	118	30	49	81	78
Other	100	108	114	−5	....	−6	3	1	2	6	1	2	2	5	(*)
Japan	108	181	176	60	74	−14	−34	25	−59	20	41	15	9	13	29
Latin American Republics and other Western Hemisphere	102	182	193	−10	....	−10	11	8	3	(*)	11	(*)	12	(*)	(*)
Other	43	43	105	−2	(*)	−2	62	62	(*)	3	2	1	1	2	(*)
By industry:															
Petroleum	1,885	2,261	2,493	231	212	19	142	15	127	203	219	100	124	143	90
Manufacturing	4,181	4,475	5,344	−23	81	−104	507	401	100	410	414	137	149	280	270
Trade	846	938	958	32	67	−35	−41	23	−64	81	88	26	21	57	62
Insurance	[3] 2,108	[3] 2,366	[3] 2,189	5	....	5	66	....	66	73	75	73	76	....	....
Other finance	(4)	(4)	(4)	47	60	−13	13	14	−1	[5] 36	[5] 44	[5] 26	[5] 36	13	14
Other	810	890	833	27	6	21	65	65	....	3	−6	16	12	−4	−11

r Revised. p Preliminary. * Less than $500,000(±).

1. "Earnings" represents the foreign share in corporate and branch earnings; "Income" is the amount distributed to foreign owners, after withholding taxes, as dividends, interest and branch profits. *See technical appendix for an explanation of the relation between income, earnings, and reinvested earnings.*

2. "New investments" consists of the first reported capital inflow to establish or acquire a new company or operation in the United States and the cost of acquisition of additional shares of existing companies.

3. Includes market revaluations of securities held by insurance companies.

4. Included in "insurance."

5. Interest paid by agency banks in the United States to foreign home offices has been excluded from direct investment totals.

Table 13.—Value of Foreign Direct Investments in the United States by Major Industry and Country—End of 1969

[Millions of dollars]

	Total	Petroleum	Manufacturing	Insurance and other finance	Trade and other
All areas	11,818	2,493	5,344	2,189	1,792
Canada	2,834	132	1,644	325	733
Europe	8,510	2,322	3,530	1,766	892
United Kingdom	3,496	829	1,176	1,143	348
Netherlands	1,966	1,275	535	55	101
Switzerland	1,395	....	1,026	323	46
Other	1,653	218	793	245	397
Other areas	474	39	170	98	167

foreigners. In 1968, net purchases by foreigners accounted for $4.4 billion of the $6.1 billion increase in the value of foreign portfolio assets in the United States. At the end of 1969 foreigners held $18.1 billion of U.S. stocks and $4.8 billion of U.S. bonds.

Stocks

The value of foreign held U.S. stocks declined by $1.4 billion in 1969 as $1.6 billion of foreign net purchases of corporate stock were more than offset by a $3.0 billion decline in stock values due to price changes. In contrast, in 1968, net purchases were higher at $2.1 billion, and the value of outstanding stock holdings appreciated by $2.0 billion. During 1968 when stock prices in the United States were rising, there was a broad foreign interest in equities, and foreign investment funds, which had been organized in the preceding years, made very large purchases. The size of the U.S. market particularly attracted the foreign investment funds because trading in large blocks of stock could be conducted without substantially affecting the price. In addition, unsettling political developments abroad, such as the invasion of Czechoslovakia and the strikes in France also encouraged purchases of U.S. stocks.

In 1969, the lower inflow was apparently related to the fact that U.S. stock prices turned downward at the same time that other foreign share prices, except those in the United Kingdom, performed well. Also, Eurodollar rates rose to 11 percent during 1969 and provided an attractive alternative for funds that might otherwise have been invested in U.S. equities.

As U.S. stock prices dropped precipitously in the first half of 1970, foreigners made net sales of $0.2 billion. The fact that sales were so small relative to the $19.6 billion in outstanding holdings at the end of 1969 suggests a

Table 14.—Newly Issued Foreign Securities Sold to U.S. Residents

[Millions of dollars]

Issuer	1967	1968	1969	1970 (Jan.–June
Total [1]	1,619	1,703	1,667	533
Canada	1,007	949	1,270	387
Central government	....	86	16	....
Provincial government-guaranteed	601	508	616	219
Municipal authorities	160	101	84	10
Corporate issues	246	254	554	158
Japan	14	3	9	....
International organizations	246	390	164	49
Less developed countries	352	320	211	96
Other developed countries	....	41	14	2
Memorandum items:				
New issues of corporate stock included above	4	84	156	15
U.S. direct investment enterprises [1]	45	354	61	114
In Canada	45	291	61	114
In less developed countries	....	63	....	....
In other developed countries	....	....	....	....

1. New issues of U.S. direct investment enterprises placed with other than parent are not included with new issues but are recorded in the direct investment account.

CHART 13

Yields on Bonds Placed Abroad by U.S. Incorporated Companies Compared With Yields on Corporate Bonds in the United States

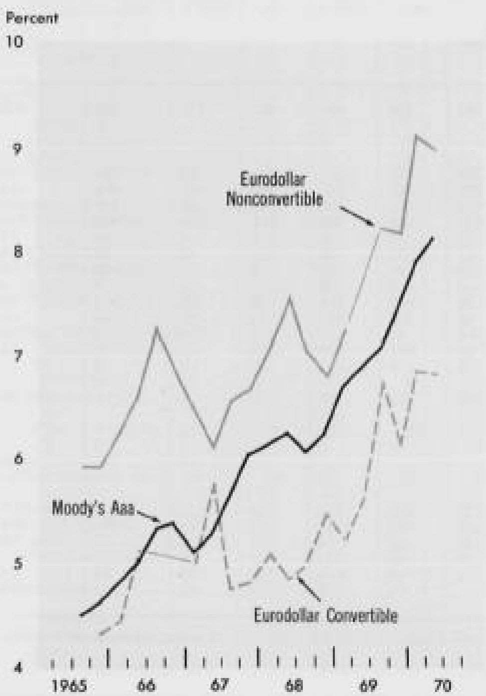

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Table 15.—Foreign Security Placements by U.S.-Incorporated Companies, by Type

[Millions of dollars]

	Straight debt: Payable in—				Convertible: Payable in—			Total [1]
	Dollars	Deutsche marks	Swiss francs	Other currencies	Dollars	Deutsche marks	Other currencies	
1965*	67	55	....	....	75	....	....	197
III	20	....	....	....	....	....	....	20
IV	47	55	....	....	75	....	....	177
1966	161	56	10	....	182	190	....	599
I	55	....	10	....	120	....	....	185
II	51	....	....	....	62	180	....	293
III	10	25	....	....	....	....	....	35
IV	45	31	....	....	....	10	....	86
1967	225	15	33	....	177	....	....	450
I	60	....	11	....	20	....	....	91
II	75	15	11	....	10	....	....	111
III	70	....	11	....	50	....	....	131
IV	20	....	....	....	97	....	....	117
1968	278	277	94	....	1,540	....	....	2,189
I	90	....	12	....	494	....	....	596
II	15	19	41	....	526	....	....	601
III	75	110	14	....	406	....	....	605
IV	98	148	27	....	114	....	....	387
1969	207	226	77	....	500	....	[2] 44	1,054
I	85	63	27	....	232	....	....	407
II	....	....	14	....	95	....	[2] 44	153
III	14	88	36	....	87	....	....	225
IV	108	75	....	....	86	....	....	269
1970*	286	....	28	[3] 32	80	....	[4] 8	434
I	106	....	14	[3] 15	22	....	[4] 8	165
II	180	....	14	[3] 17	58	....	....	269

* Six-month total.
1. These amounts differ from balance of payments figures which are net of placement costs.
2. Payable in British sterling.
3. Payable in Dutch guilders.
4. Payable in Swiss francs.

certain stability and long-term focus of foreign investments in U.S. equities.

Bonds

Foreign investments in U.S. bonds rose $0.6 billion in 1969, compared with $2.1 billion in 1968. Inflows of funds were $1.5 billion in 1969, down sharply from the $2.3 billion inflow in 1968. In addition, rising interest rates resulted in a $1.0 billion reduction in the value of outstanding holdings, compared with a reduction of only $0.2 billion in 1968.

The drop in foreign purchases of U.S. bonds largely reflected economic and institutional factors affecting U.S. corporate foreign borrowing. The large increase in new issues of securities sold abroad by U.S. corporations in recent years was partly in response to the Foreign Direct Investment Program. Under this program direct investments by U.S. companies which are financed by funds raised abroad are not subject to restriction. In 1968, when the program first became mandatory, U.S. corporations raised $2.1 billion from bond placements with foreign investors. In 1969, such issues fell, but they still amounted to $1.0 billion (table 15).

A sharp tightening in the Eurobond market and national capital markets abroad was probably a major factor in the 1969 decline in these issues (chart 13). In addition, the general weakness and uncertainty in U.S. stock markets made new bond issues convertible into U.S. stock at a fixed price much less attractive to foreigners; such offerings were reduced from $1.5 billion in 1968 to $0.5 billion in 1969 (table 15). The fact that U.S. corporrations had nearly $1.0 billion of unused proceeds of earlier borrowing at end 1968, may have also discouraged further new issues in 1969.

U.S. corporations continued to establish Netherlands Antilles finance subsidiaries during the year as means for raising money in the Eurobond market. Tax considerations provided a major motive for establishing such subsidiaries. Security issues by these subsidiaries usually carry the guarantee of the U.S. parent company. For balance of payments purposes, these issues are considered net purchases of U.S. obligations by foreigners only to the extent that the finance subsidiaries transfer the proceeds to the U.S. parent. During 1969, $283 million of such proceeds were transferred to U.S. parents for either foreign or domestic use.

In the first half of 1970, international bond issues by U.S. corporations declined further from 1969. Convertible issues were still depressed, and the very tight market conditions encouraged U.S. borrowers employing straight debt to reduce maturities to medium-term 5-year notes. Also, floating rate instruments were utilized by two U.S. corporations, with the rate on the issues pegged to the 6 months Eurodollar interbank rate with a minimum rate clause. Such instruments are designed to avoid long-term commitments at record high interest rates.

In 1969, foreign transactions in outstanding securities (including U.S. Government agency bonds) somewhat offset the decline in new issues. The World Bank increased its net purchases of U.S. agency bonds by $0.2 billion to $0.3 billion. Furthermore, foreigners increased their purchases of other outstanding U.S. bonds from $30 million in 1968 to $182 million as U.S. bond yields moved substantially upward. In the first half of 1970, net purchases of agency bonds and of other outstanding U.S. bonds amounted to $188 million and $178 million, respectively.

Technical Note

The various direct investment earnings items, including those shown in tables 6C, D & E, are defined below and their derivation and relationship to each other are detailed.

Item and definition

1. Net earnings of foreign corporations: The U.S. parents' equity in the earnings of their foreign subsidiaries after provision for foreign income taxes, preferred dividends, and interest payments.

2. Net earnings of foreign branches: The earnings of foreign branches of U.S. companies after foreign income taxes, but before depletion charges and U.S. taxes. Included with net earnings of branches are the U.S. share in the net earnings of foreign partnerships, sole proprietorships and other types of foreign organizations. All branch earnings are assumed to be repatriated to the United States and thus are balance of payments flow items. To the extent that branch earnings are left abroad they are implicitly entered as offsetting capital outflows.

3. Earnings: Net earnings of foreign corporations plus net earnings of foreign branches.

4. Gross dividends on common stock: Dividends paid out by foreign corporations before deduction of withholding taxes paid to foreign governments.

5. Foreign withholding tax: A tax withheld on the payment of dividends as distinguished from income taxes which are imposed on the earnings of a business. Taxes are also withheld by the payor on payments of interest and preferred dividends but both interest and preferred dividends are reported to the Balance of Payments Division on a net basis and, therefore, our data on withholding taxes relate only to those on common stock dividends.

6. Dividends: Dividends on common or voting stock only, net of foreign withholding taxes; dividends are included in income as balance of payments flow items.

7. Preferred dividends: Dividends received on perference or non-voting shares after deduction of any foreign withholding taxes. Preferred dividends are included in income as balance of payments flow items. Preferred dividends are treated like interest in these accounts even though on the foreign company's books they are not charged as an expense.

8. Interest: The net interest received on intercompany accounts or on long-term debt of foreign affiliates held by the parent or other nonbank U.S. investors, after deduction of any foreign withholding taxes. Interest is not included in earnings since it is deducted as an expense item by the foreign firm, but, it is included in income as a balance of payments flow item.

9. Income: The sum of dividends, preferred dividends, and interest received by or credited to the account of the U.S. owner—all net after foreign withholding taxes—plus branch earnings after foreign taxes; all before U.S. taxes.

10. Reinvested earnings: Net earnings of foreign corporations less gross dividends on common stock.

11. Adjusted earnings: The benefits of ownership accruing to a U.S. foreign direct investor after all foreign taxes, including withholding taxes, have been paid; this is comprised of (1) funds returned to the United States as income in the form of dividends, preferred dividends, branch profits, and interest, plus (2) funds left abroad to increase the investor's equity in the foreign enterprise as a reinvestment of earnings.

Derivation and relationship based on 1969 preliminary data

[Millions of dollars]

1. Net earnings of foreign corporations	5,281	reported
2. Net earnings of foreign branches	2,674	reported
3. Earnings	7,955	= 1+2
4. Gross dividends (on common stock)	2,889	= 5+6
5. Foreign withholding tax (on common stock)	282	reported
6. Dividends (on common stock)	2,607	= 4−5 (reported)
7. Preferred dividends	17	reported
8. Interest	481	reported
9. Income	5,779	= 2+6+7+8
10. Reinvested earnings	2,392	= 1−4 or 3−2−4
11. Adjusted earnings	8,171	= 9+10 or 3+7+8−5